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ABSTRACT

This document contains six essays examining the history and impact of the social security program on America's economic and social development. "Social Security: The Cornerstone of American Social Welfare Policy," by Malcolm H. Morrison, presents brief background information on the system and discusses the basic principles of social security. The second section of the paper describes the changing profile of the aging population which will require modifications in the social security system. "Social Security: A Source of Support for All Ages," by W. Andrew Achenbaum, reviews the development of social security and offers a three-stage strategy for renewing the system: job training for older workers, assurance of universal coverage, and recognition of the changed status of women. "Emerging Issues in Disability Policy," by Edward D. Berkowtiz, discusses the stages of development and policy problems in the disability insurance program along with recommendations to address those problems. "Social Security and Labor Market Policy," by Ben Fischer and Edward Montgomery, assesses the impact of the social security system on America's labor market. "Social Security and the Changing Role of Women," by Gail Buchwalter, explores needs of women who do not have traditional work patterns or family lifestyles and concludes that the social security system has not sufficiently addressed their needs. "Contemporary Social Security in Comparative Perspective: What Kind of Crisis?" by Peter N. Stearns, reviews the history of American social security in light of European trends in order to examine the distinctiveness of basic policy assumptions. (MCF)

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# FIFTY YEARS OF SOCIAL SECURITY: PAST ACHIEVEMENTS AND FUTURE CHALLENGES

AN INFORMATION PAPER

PREPARED FOR USE BY THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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# PREFACE

Fifty years ago this August, President Franklin Delano Roosevelt signed into law one of the most significant bills in American history—the Social Security Act. With a stroke of his pen, President Roosevelt sealed a compact among all future generations of Americans. This compact, conceived in one of our Nation's darkest hours, recognized that dependency and destitution too often are the companions of old age. The Social Security Act symbolizes a national commitment to defend the average citizen and his family against these grim companions.

The true genius of social security is that it captures in law two fundamental American principles: A fierce commitment to individual economic independence, and the belief that interdependence and mutual self-help are necessary for the larger social good. Social security shields the working population from the burden of supporting their elders, while assuring a dignified source of income for those who no longer work.

This compact among generations has underwritten the success of the program for the past 50 years and guarantees its viability for the future. While 50 years ago most Americans' struggled with the very concept of "social security," today social security touches the lives of nearly everyone in this country. It is the foundation of our Nation's social policy.

The Senate Special Committee on Aging has undertaken several projects to commemorate this anniversary year. This selection of essays, commissioned by Carnegie-Mellon University, is being printed for release at a special conference and committee briefing held on the campus of CMU, on August 13, 1985. These essays provide an historical window on the social security program and its impact on America's economic and social development.

The birth of social security 50 years ago was greeted with great hope, and great skepticism. The program has borne the tests of time, of revisions, and of continued skepticism. It stands today intact, true to its underlying compact, a tribute to the genius of the American spirit and the dignity of our national commitment to the greater good.

John Heinz,
*Chairman.*

# EXECUTIVE SUMMARY

(W. Andrew Achenbaum)

Many individuals spend their 50th birthday assessing what they have accomplished, what challenges lie ahead—and what strategies are most likely to prove successful in meeting them. As social security passes through a climacteric of its own during the 50th anniversary of its enactment, a similar retrospective analysis and consideration of the future seems just as appropriate. Indeed, it is essential for the program, for the millions who depend or will depend on it, and ultimately for the health of the American body politic.

Any assessment must begin by acknowledging that social security's size, scope, costs, and technical jargon overwhelm all but a few who have the ability and patience to fathom the system's complexity. Those who are not numbed by the numbers often share an opinion expressed by Yale law professor and New Deal advisor Thurman Arnold in 1935, the year the original Act was passed: "Bureaucracy is probably the most important of our negative symbols. It does not hold up an ideal. Instead, it pictures a vague terror." Social security's critics would contend that Arnold's observation has proven sadly prophetic.

A "crisis mentality" has pervaded discussions about the program since the mid-1970's. The Nation's elderly, who depend on social security as a primary means of economic support, worry that their retirement and health-care benefits will be cut amid mounting deficits in the Federal budget. Younger workers increasingly doubt that there will be any funds to support them in their old age. Pollsters have documented a steady erosion of confidence in the system.

Yet there is another, equally important, side to the story. For 50 years social security has played a central role in providing protection to American families for contingencies they invariably face in a "modern" society. Social security has evolved into the country's largest and costliest domestic program in part because it is also its most successful one. More than 36 million people are eligible for old-age, survivors, and disability (OASDI) pensions. More than a quarter of all households in the United States receive benefits monthly. Through 1,300 local offices, 10 regional headquarters, and central offices in Baltimore and Washington, the Social Security Administration issues some 432 million checks each year and handles 380 million other transactions, making mistakes only 1 percent of the time. Less than 2 percent of its operating budget covers overhead costs. This is a remarkable record for any bureaucracy.

From the very beginning, social security has been intended to serve the best self-interests of the American people. Franklin Delano Roosevelt considered it a cornerstone for "the kind of protection Americans want." Social security's faithful servants—including Robert Ball, Lenore Bixby, Douglas Brown, Wilbur Cohen, Ida Merriam, and Robert Myers—have demonstrated a pragmatic capacity to dispense with a narrow view of political expediency in adapting OASDHI to changing human needs.

Nonetheless, social security has reached a critical juncture in its maturation. The 1983 amendments temporarily defused concern over the financial health of OASDHI, but key decisions remain to be made. To prepare to meet the challenges that lie ahead requires a confrontation with dimensions of historical truth that sometimes are hidden or forgotten. Recovering the real story of OASDHI's origins and growth may help to free us of outdated assumptions and unexamined shibboleths.

This publication does not concentrate on problems that are primarily technical, actuarial, or fiscal in nature. Present-day economic issues are certainly germane, but a different tack has been taken here. Each of the authors has tried to clarify some of the confusion about OASDHI by making explicit several fundamental and enduring ambiguities inherent in the system. The essays differ in emphasis, but all seize on difficulties and unintended consequences associated with implementing social insurance's bold objectives. By moving beyond the "facts" that frame most discussions of OASDHI, these essays demonstrate that the tensions and contradictions in prevailing values and social priorities are not to be found just in social security: They exist in all our old-age policies and in programs intended for those who are not yet old.

Malcolm Morrison provides a broad overview that illuminates OASDHI's multi-faceted purposes. He reminds us that the program was born in the depths of the Great Depression, which provided an inescapable object lesson in the way socio-economic forces beyond any individual's control could result in mass unemployment, hunger, familial disruption, and other tragedies. Pressed by the need to alleviate such problems as quickly as possible, Franklin Delano Roosevelt and his advisors tried to appeal to the Nation's vital center by piecing together a program that built on existing institutions and acceptable versions of European policies. Over time, social security has lived up to its promise as a sensible solution to societal risks—within clearly defined limits. As Morrison demonstrates, OASDHI has dramatically reduced the extent of poverty among the old. And while the aging of the population will inevitably increase program costs, he doubts that the fundamental structure of the program must be altered.

Still, the graying of America and the fears of the baby-boom generation loom large in debates over the future of social security. Those who characterize social security as an old-folks' institution sometimes claim that OASDHI pits the legitimate, present-day interests of the old against the legitimate, future claims of the young. I show in my paper, however, that the men and women who laid the foundations for social insurance in this country perceived the problem of old-age dependency in the context of the family and the passage of generations. By addressing the problems of the oldest members of society first, policymakers hoped to relieve hardship among the young and the middle aged. In addition to the indirect relief these groups would derive from socially guaranteed aid to the elderly, they stood to benefit directly. They too would get pensions upon reaching retirement age. In the meantime, they could count on other social services provided in the 1935 law, including aid to dependent children, expanded unemployment compensation programs at the State level, assistance to the blind, and augmented public health services. As the system gained acceptance and was adapted to meet changing needs, social security became a "safety net" that serves as a transgenerational source of support for all age groups. For this reason, I believe that it makes sense to continue building on the original vision of social insurance in America as a means of providing cradle-to-grave protection.

Edward Berkowitz's analysis of the disability insurance program emphasizes an important historical irony. Addressing the needs of the disabled through social security insured the growth of disability insurance into the Nation's largest and most important initiative. And yet, disability insurance is not the program that planners might have chosen had they begun with the phenomenon of disability rather than with dovetailing their ideas onto programs designed to relieve and reduce old-age dependency. As a result of incremental policymaking in Washington and in the private sector, the United States now maintains not one but several disability policies, ones that often work at cross purposes. The rise in litigation, the reliance on "retirement" to keep the disability insurance costs in bounds, and the incomplete nature of civil-rights protection suggest that more than the future of disability insurance is at stake: Berkowitz argues that eliminating inconsistencies from our social-welfare laws may make it easier to enforce laws designed to protect the handicapped.

Ben Fischer and Edward Montgomery assess the cumulative impact of the OASDI program on the U.S. economy, particularly its labor market. Their review of the literature indicates that social security has largely succeeded in fulfilling its initial objective of allowing workers to retire with a decent standard of living. OASDI compensates for limitations and gaps in private insurance coverage. It also has served as a stabilizer to the country's macroeconomic structure insofar as it buffers the decline in income or demand even in the event of a recession. But Fischer and Montgomery question the future desirability of using social security as a tool of labor market policy. They call for changes in the OASDI system that will encourage continued work on the part of older workers while continuing to provide a basic measure of income security for those who wish to cease gainful employment. Only this way, they believe, can we avoid calls for benefit reductions to solve economic woes in society at large.

Gail Buchwalter King combs the historical record to determine what happens when the desires and demands of groups within the American population do not neatly conform to consistent work patterns or "traditional" family lifestyles. Both minorities and women's groups have argued that their needs and expectations diverge from the protypical white male social security contributor. Yet, while lawmakers have been sensitive to charges of sexism and racism, and while they have eliminated gender-based discriminatory clauses, King is not persuaded that the system has sufficiently responded to major shifts in women's employment patterns and family plans. It is difficult to advance the case for significant alterations in the status quo—such as those envisioned under various earnings-sharing schemes—in the face of this country's pluralistic value system and prevailing political environment.

Peter N. Stearns reviews the history of American social security against the backdrop of European trends in an effort to cast light on the distinctiveness of basic policy assumptions. Compared to social-insurance developments in other western nations, OASDHI came late, and differences were compounded by variations in coverage. Yet a careful look at the "big picture" reveals that actual social trends have not differed as much as political responses. The gray lobby seems more potent here, and unions hew to class-based arguments there, but Europeans are more inclined to discuss welfare issues in political rather than actuarial terms. Unlike us, Europeans have sought to lower rather than raise the "official" retirement age. Policymakers everywhere sense the need to consider fundamental changes in the status quo, but the reluctance to contemplate sweeping reform across the Atlantic is striking. This suggests that the alternatives defined by one nation are not always a function of objective reality. Stearns concludes that programs in all western countries may be converging, but conditions that transcend geo-political boundaries do not invariably generate solutions that can be adapted from one setting to another.

Readers of this publication, in sum, will find that authors have not invoked the historical record simply to celebrate past achievements. The authors hope that policymakers and the public at large can draw more profound lessons from the past. Social security has served the Nation well. But it deserves our utmost intellectual and political effort to preserve it from obsolescence or senescence.

This is a propitious time to reflect hard on a vital social-insurance program that has come of age. We need to expand our horizons so that we can maintain and enhance the efficient and humane programs that we have created. The historical perspectives offered here can—and should—inform future policy debates. As Lord Acton reminded us long ago, "those who forget the past are condemned to repeat it."

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# FIFTY YEARS OF SOCIAL SECURITY: PAST ACHIEVEMENTS AND FUTURE CHALLENGES

## Chapter 1

## SOCIAL SECURITY: THE CORNERSTONE OF AMERICAN SOCIAL WELFARE POLICY

(Prepared by Malcolm H. Morrison, Ph.D.,[1] The Wharton School and The Rehabilitation Research and Training Center in Aging, University of Pennsylvania)

### A. INTRODUCTION

> The Social Security Act offers to all our citizens a workable and working method of meeting urgent present needs and of forestalling future needs. It utilizes the familiar machinery of our Federal-State government to promote the common welfare and the economic stability of the Nation.
>
> * * * * *
>
> The Act does not offer anyone, either individually or collectively, an easy life—nor was it ever intended so to do. None of the sums of money paid out to individuals in assistance or insurance will spell anything approaching abundance. But they will furnish that minimum necessary to keep a foothold; and that is the kind of protection Americans want.
>
> * * * * *
>
> The Social Security Act is "a cornerstone in a structure which is being built but is by no means complete."
>
> —*Franklin Delano Roosevelt*

Social security is the most successful domestic program ever developed in the United States. It is a fundamental and important part of the lives of every citizen, providing crucially important income security and health benefit protection during older age and protection against income loss due to disability, widowhood, and becoming destitute either in old age or during the period of childrearing.

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[1] The views and opinions expressed are solely those of the author and should not be attributed to any organization with which the author is affiliated.

When enacted, only 15 percent of employed people in the Nation were covered by any type of retirement system (hardly anyone received pension income), universal coverage for disability and destitution was virtually unknown and health care costs were completely the responsibility of the individual. Today, 36 million people receive monthly retirement and disability benefits from social security, nearly all of the 28 million people age 65 or over are covered by medicare—the national health insurance program for the aged and disabled—an additional 4 million destitute older, blind, or disabled persons receive monthly payments under the supplemental security income (SSI) program and 3.5 million families receive public assistance payments under the Federal-State Aid to Families with Department Children program—a part of the Social Security Act. Because the social security program represents a practical response to human needs, it has continued to receive widespread support from the American people and every segment of society—business, government, labor and nonprofit organizations. It is the most fundamental program involving intergenerational responsibilities and is recognized throughout the world as a model for an efficient and effective national income and health insurance program.

The success of social security has been very significant in terms of reducing poverty among the aged and improving their economic status. Whereas in 1960, 35 percent of the Nation's older population were in poverty, today this figure is 14 percent—about the same as for the population as a whole. During the period 1965–83, the median income of aged families rose from $3,640 to $16,862 and in recent years the rates of increase in income of the aged have been significant. It is well known, however, that these figures obscure the fact that "the aged" are a highly diverse population and that while some have substantial economic resources, a significant number have very little income. For example, 30 percent of those age 65 or over are below 150 percent of the poverty line. This results in three-quarters of the aged having incomes below $10,000 per year and very low income for the oldest aged, women and minority group members. Sex, race, health and ability to continue to work all significantly affect the income of older persons and the disabled. These are factors over which people have little direct control.

Overall, social security provides more than half the income of two-thirds of all beneficiaries and is particularly important for elderly persons who live alone and are members of minority groups. While about half of recent retirees receive income from pensions, more than three-quarters have income from assets and one-third, income from earnings. When all the aged are considered, social security income has continued to increase while other sources have remained relatively stable over the past 20 years. There will, however, be a gradual change in the future as more persons of retirement age qualify for pensions and accrue assets which can be used in retirement. In addition, income from employment which has declined significantly for the aged, may be important for some portion of the future aged.

Social security is not properly characterized as a program to reduce poverty and destitution. It is an overall national universal program supported by the entire working population—120 million persons—providing family protection in the event of unemployment, retirement, disability, destitution, health difficulties, and death. This type of protection against the loss of earned income is essential because of the unpredictable nature of life and the virtual impossibility of securing the comprehensive benefits that a national universal program can provide. Yet it is quite important to recognize that social security, despite its changes in coverage and benefits over time, is not meant to necessarily provide complete protection for all risks as these may be perceived and experienced by families and individuals. Numerous additional private sector insurance and financial management alternatives have been and are available to assist in providing more comprehensive protection related to the risks that social security covers. In fact, support for social security has been reinforced because of these additional forms of protection provided by private initiative. But most private insurance programs are designed and often marketed to recognize and build upon protection provided by social security. In this way, the program has continued to receive wide support from American industry and commerce which continues to depend on social security as the fundamental family protection program in this country.

As the social security program developed and matured, its cost has increased. Cost increases and deficits in various parts of the overall program have raised questions about the future costs of social security, the proportion of the Federal budget required to meet these costs and who will pay the costs. Questioning the structure and functioning of social security is certainly well within the traditions established by its founders. Neither the Committee on Economic Security nor those who contributed significantly to the subsequent development of the program ever suggested that the program was perfect or sacrosanct. In fact, the opposite has been the case—the program has always been viewed as dynamic and subject to modification to achieve practical goals as agreed to by the American people.

As the system has matured and been subject to changes in economic conditions (most of which were impossible to predict), suggestions have been made that it has become too costly or that its principles are no longer functional and should be fundamentally changed. These views have often been linked to financing questions or to discussion of the appropriate role of social security in a more complex system of income and health benefit provision for an aging population. It is important to address these issues not on the basis of a supposed "crisis" in the program but rather in light of changes in the social and economic structure of American society. Wilbur Cohen has pointed out that there are many ways to view social security—as an income transfer program, as a program involving fiscal issues of savings, investment, and productivity, as a collective social insurance mechanism, et cetera. Yet perhaps the most significant and comprehensive way to view this program is as the only one that provides the most fundamental protection to American families for contingencies which they will face in living. While this type of protection is not without significant costs, the magnitude of the risks faced by families and the comprehensive nature of the social security program require that caution and intelligence be exercised in modifying the program so that it can continue to achieve the broad purposes for which it is designed and those which are both supported and required by the American people. This does not mean that the program does not require periodic modification to meet changing social and economic circumstances. Rather it suggests that social security is in fact a flexible instrument which can be used to achieve collective social goals. It is up to us to choose how we use this instrument in the future.

This essay provides a rationale for the future modification of several important parts of social security to make the program more responsive to changing social and economic conditions in an aging society. These ideas are exploratory in nature but are based on the assumption that social security will continue to evolve as the key social insurance program for American families.

## B. THE BASIC PRINCIPLES OF SOCIAL SECURITY

The Social Security Act of 1935 did represent a fundamental change in the responsibilities of the Federal Government for economic problems of old age, unemployment, disability, and child welfare. In the short period of just 6 months (June–December 1934) four key individuals * completed a major report on economic security and prepared a comprehensive bill to establish the social security program. This bill incorporated two important principles that have proven extremely effective over many years—the principle of pooling of risk used in the private insurance industry that formed the fundamental basis of the OASDHI program and the principle of Federal-State cost sharing that was the basis of the unemployment insurance, child welfare, social services, rehabilitation, and old age assistance programs.

In its most basic form, the social security program is a federally administered, nationwide, compulsory, contributory system to which nearly all employees and employers contribute and from which they derive benefits for loss of income due to retirement, survivorship, disability, and health costs. Benefits are paid as a matter of right, related to the amount of wages and weighted in favor of lower paid earners. This approach was relatively cost-efficient since while the higher paid contribute more and receive higher benefits, replacing the same percentage of their earnings as the lower paid would have made the program extremely expensive and more difficult to justify in social protection terms. The original and current age of eligibility for full retirement benefits is 65 although 1983 legislation requires a gradual increase in this age to 67 between the years 2002 and 2027.

The basic principle of contributions by employers and employees to a fund which can provide benefits when earnings are lost due to retirement, disability, or death, remains the cornerstone of the social security program. Clearly there have been many significant program modifications since 1935. Among the most important have been the expansion of the program to families (wives, widows and children) by the 1939 amendments, the extensions of coverage and benefit levels between 1950 and 1971, the addition of disability in-

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* Frances Perkins, Secretary of Labor; Arthur J. Altmeyer, Assistant Secretary of Labor; Edwin E. Witte, University of Wisconsin; and Thomas H. Eliot, Associate Solicitor of Labor.

surance in 1956, the provision for receiving reduced benefits for early retirement (1956 for women, 1962 for men), establishment of medicare in 1965 and its extension to the disabled in 1972, the creation of automatic cost-of-living increases in the program and the supplemental security income program in 1972, automatic earnings and benefit indexing in 1977 and the financial adjustments in the program adopted in 1983 based on recommendations of the National Commission for Social Security Reform. Today, the OASDI system is soundly financed and constitutes the most significant basic income protection for the entire U.S. population. It is a fundamental part of what Robert Ball has identified as the four-tier income support system in the Nation: Social insurance, private pensions and health insurance, private savings and a means-tested national program for the most destitute aged, blind, and disabled—the supplemental security income program.

It is important to note that while there have been some unanticipated adjustments to the program, especially for financing, coverage and benefit levels, the basic protections provided and the financing approach remains the one envisioned by the 1937–38 Social Security Advisory Council and its predecessor the 1934–35 Committee on Economic Security. The remarkable aspect of these early plans was their foresight in estimating the future size of the elderly population and the approximate wage replacement level of social security benefits for individuals and couples at average wage levels. The plans estimated that in 1980 the aged would be 14–16 percent of our population (the actual figure was 11.3 percent) and that social security retirement benefits would replace about 40 percent of average individual earnings and 60 percent of average couple earnings (the 1977 amendments established these at 41 and 62 percent respectively).

Under these principles, social security income protection is now provided to nearly all persons in the United States. And, despite a very large amount of discussion and debate about changing the structure, functions, financing and basic forms of protection provided by the program, there appears to be little support for such major changes from any segment of American society. However, in part because of the widespread discussion of social security's future, many have become convinced that because of changing demographic, economic, and health circumstances, some significant modifications of social security will be required in the future, particularly after the first or second decade of the twenty-first century. A better understanding of the basis for these suggestions and their implications, can provide useful guidance for future social security policy.

## C. INCOME SECURITY AND THE CHANGING PROFILE OF THE AGING POPULATION

Despite the rather exaggerated reaction to the short-term financing problems of the social security program (both OASDI and medicare) it is clear that in short run, adjustments can be made to ameliorate the financing problems of the program and do so without excessively burdening either employees or employers. Modest tax increases on wages and the introduction of a tax on portions of the social security benefit of those with high overall incomes, have been enacted with little opposition and are a practical way to solve short-term financing problems. (More significant adjustments have been proposed for the medicare program involving benefit reductions, but it is too early to determine how extensive such reductions may turn out to be.) If the so-called "social security crisis" has not disappeared, it has certainly diminished in intensity as reasonable solutions have been implemented. (While perhaps more complex, a similar set of approaches can reduce the so-called medicare financing crisis.)

But, as Alicia Munnell and others have pointed out, the social security program as a whole faces a number of serious future problems which may require more significant types of reform. In some ways these difficulties may be in part a result of the success of the program in ameliorating poverty and improving the standard of living for the majority of the older population. While in others, the problems are related to changing demography, work and retirement patterns, sources of economic support and the types of health problems experienced with longevity. Resolving most of these new problems will likely require creative modifications of social security.

## 1. TODAY'S ADVANTAGED ELDERLY

Today's elderly have benefited from the improvement of social security benefits, private pensions and individual savings which have resulted in improved economic status for the entire older population. Recent retirees in particular are experiencing major improvements in income. For example, of persons retiring in 1980–81, 97 percent received social security benefits, nearly half received additional public or private pensions and three-quarters received income from assets. About one-third also received income from earnings indicating continued attachment to the labor force after receiving social security. Median annual income for the newly retired was $18,132 for couples and $9,300 for individuals. This improved economic status is likely to characterize a larger share of future retirees more of whom will receive income from several sources. Some evidence indicates that social security's share of retirement income may become secondary for such advantaged retirees who will have multiple sources of income.

In the short-run we can expect a reasonable rate of continued improvement in the income status of those retirees who have had a relatively stable work history and are covered and vested in public or private pension plans in addition to social security (or who save for retirement through a variety of private mechanisms). But, over the next 50 years the aged population will more than double in size and will by 2030 represent at least 20 percent of the entire U.S. population. Under these circumstances, the financial pressure for providing social security retirement and health benefits will increase substantially. An important question that must be resolved is how these benefits will be financed? If present early retirement trends continue, along with increasing life expectancy, the two most promising approaches to meeting future costs would be further increases in payroll tax rates and increased taxation of social security benefit payments. Despite arguments to the contrary, there is no reason to believe that either or both of these approaches will not be feasible in the future. It should be added that neither would change the fundamental principles of the social security program. The extent to which these policies will be necessary may, however, be related to three other important factors: Retirement trends, other income sources received by future retirees and health status of the older population.

## 2. TRANSITIONAL RETIREMENT

Declining labor force participation by persons age 55 and over has been a consistent trend since 1950 in the United States. Many reasons have been suggested to explain this pattern but the most salient are that the availability of retirement benefits and declining health lead to earlier retirement. In recent years, three-fifths of older workers have accepted retirement at the social security early eligibility age of 62. Private pension plan incentives are encouraging even earlier retirement for many workers and negotiated union pension plans have similar provisions. Some have pointed out that early retirement serves the purpose of balancing the overall labor market, while others have documented the variety of difficulties faced by older workers in retaining or securing employment. Overall, however, based on evidence from several major longitudinal studies of the pre- and post-retired, it appears that most retirees look forward to retirement and find it satisfying. A relatively small proportion might return to work if suitable flexible working conditions were available and jobs could be secured without too much discouragement. Few workers are required to retire because of mandatory retirement ages (which generally cannot be imposed until 70) and most choose retirement when financial resources are available. The continuation of early retirement on a long-term basis would of course further increase the financial burden on the social security program to pay its benefits for long periods of time to a much enlarged retiree population.

Until very recently it had been assumed that early and permanent retirement would be the continuing trend. But some new evidence has arisen indicating that rather significant proportions of social security retiree beneficiaries during 1970–80 continued to be employed for short periods of time (1–4 years) after receiving social security benefits. In fact, the evidence indicates that for almost half of these social security retiree beneficiaries, retirement was more of a transition process involving a gradual cessation of work activity over a 4–5 year period of time during which earnings from employment continued to be an important source of income for the partially retired. Thus, the presumption that abrupt total retirement will be the prevalent trend in the future may not be warranted. The social security program will be reducing its disincentives to work by reducing the retirement test penalty on earnings, increasing the benefit credit for postponement of retirement, and increasing the retirement eligibility age to 67. These changes have been designed to create a more neutral set of financial incentives in order to reduce the frequency of early retirement decisions. Given the findings about the prevalence of transitional retirement, consideration should be given to further changes in social security that might encourage later and longer labor force participation. Under certain circumstances, the introduction of a partial pension program might help to achieve this objective. Or, if this is not feasible, a more flexible benefit schedule could be introduced with greater financial incentives for later retirement. It is not clear whether these types of incentives can be fully effective in helping to maintain more contributors to the social security program. But, because of the combined effects of demographic changes and early retirement patterns, more attention to developing work incentive policies is desirable.

## 3. Private Pensions

Because of the growth of private pension plans between 1950 and 1975, some assumed that gradually the majority of workers would be covered by and ultimately receive additional pension benefits beyond social security benefits. Data on pension receipt by recent retirees appears to support this view since about 50 percent are receiving an additional public or private pension benefit. While in the future, many more retirees will receive such pension income, it appears that neither coverage nor subsequent receipt of a pension will approach universality and that substantial portions of the workforce will either not receive a pension or will get only small amounts of income from this source. For example, in 1979 almost 50 million workers (about half the labor force) did not participate in any pension plan. Most of these were employees with moderate or average earnings working full time in firms with fewer than 100 employees and many were in services or retail and wholesale trade industries. It is known that there are significant difficulties in extending private pension plans to small firms, yet it is precisely these firms that will grow most rapidly and employ a large portion of the U.S. workforce. Thus, for some time to come, a very large portion of the workforce will remain uncovered by private pension plans.

In addition to coverage problems, private pensions involve several additional difficulties which increase their risk as a reliable retirement income source. First, they are subject to improper management and malfeasance which can sometimes result in their premature termination. In addition, they can be terminated due to employer business setbacks or the desire of an employer to use pension assets for other purposes (employees with vested pension benefits are usually protected under this circumstance). Second, many plans provide few or no benefits for younger and part-time employees, have long vesting periods and do not protect those with breaks in service with an organization. This is particularly damaging to women employees who tend to work for many employers on flexible schedules. Finally, private pension plans rarely provide adjustments of benefits for inflation. This results in substantial losses of purchasing power over time and reduces the real value of pension income. These difficulties may be corrected over time but at present and in the foreseeable future, private pension plans will remain a useful supplement to social security for those who qualify but not a universally available and reliable retirement income source. Thus, even for recent retirees, half receive no private or public pension income and of those who do, nearly 60 percent get no more than $100 per month from this source.

On a national basis, social security benefits continue to provide 40 percent of retiree income, assets provide 25 percent, earnings 18 percent, and pensions just 14 percent of income, and this share has slowly increased in recent years. Thus, the primary reason for the improved income status of the aged is the availability of social security benefits which, when combined with other sources, raises economic welfare.

Some have suggested that as the availability of public and private pensions gradually increased, they would become the dominant source of income for the retired. Under these circumstances it would be possible to reduce the benefit levels of social security and reduce employee and employer tax payments which support the system. This then would lead to a diminished or more residual program for a smaller proportion of the population who required social security income benefits. Such a change would involve a fundamental restructuring of social security and would place a very heavy burden primarily on private pension plans to provide support for the entire American workforce. In fact, under such circumstances, private plans might have to be mandated for all employees with appropriate regulation of coverage, funding, vesting, and benefit payments. Such a fundamental restructuring of social security and private pensions, even if feasible, could be very costly, involve significant duplication of benefits and vastly increased Government regulation. The present combination of social security and private pension benefits is gradually producing better coverage for more employees. Business organizations desire and appreciate the flexibility that such a system provides and support multitiered income sources for the retired (and other groups protected by social security) based on social security. A substantial change in this pattern mandating universal private pensions would not be supported by the private sector, nor would it necessarily enhance private saving through insurance and retirement savings plans which themselves are based on social security benefit payments.

It appears, therefore, that if more revenues are needed to maintain social security benefits for the future retired population, a more feasible approach to secure these resources would be to tax the benefits of those who have higher incomes from multiple sources of retirement income rather than to attempt to change the underlying structure of social security, an approach that would involve serious risks and not be supported by most segments of American society.

### 4. CHANGES IN HEALTH

Increasing life expectancy at older ages has major implications for the social security program because medical expenses for older persons far exceed those of other population groups. It is clear that as life expectancy has increased, the incidence of chronic health problems requiring medical care has also grown significantly. In addition, there has been a tendency for disability rates to increase for men age 45–64. Finally, it is generally acknowledged that a large portion of increased medical expenditures results from a combination of inflation and increasing complexity of medical services provided by hospitals and physicians. Since it appears that more medical care use does not necessarily improve health status (except for targeted conditions and populations, such as hypertension or prenatal care), substantial efforts are underway to better control health care costs by changing health insurance plan incentives, hospital fees, and provider options.

Social security's medicare program is a focus of such efforts which involve controls over hospital charges, benefit cost sharing with medicare recipients, and examination of new provider and benefit arrangements. The control of health costs is an extremely complex task which requires review of insurance benefits, provider options, utilization incentives and review procedures. These issues will continue to require major attention in the years immediately ahead, particularly since the Medicare Hospital Insurance Trust Fund faces upcoming deficits and some type of fiscal and programmatic reform will be needed to solve this problem.

Over the longer run however, the problems of funding the medicare program may become even more serious because of the increasing number of persons with chronic impairments which limit or preclude employment and the large growth of the oldest portion of the aging population, those over age 75 whose medical care becomes very expensive. For this reason it is important to begin thinking about social security policies which can: (a) Encourage more persons with impairments to remain in the workforce rather than accepting disability and medicare benefits on a permanent basis, and (b) develop more cost-effective alternatives for the use of medicare benefits so that individual beneficiaries have more choice of competitive providers of health services. While the social security program cannot alone bring about all the reforms needed in the health care system, it can significantly influence both the cost and provision of services.

Developing these new health benefit policies may be the most important social security challenge of the next 50 years.

## D. CONCLUSION

The social security program has been highly successful in meeting the economic needs of American families. Its protections are a fundamental part of our national life and are the basis of significant additional options provided by the private sector. The contributory and universal features of social security have been widely supported and remain as fundamental to the broad social acceptance of the program. As the costs of social security have risen, a debate has developed about whether social security should continue to be the primary program of economic support for families and particularly the aged and how the increasing costs of the program should be met.

It is now clear that population aging will result in the need for increasing social security expenditures and that future modifications in the program will therefore be required. The major areas for policy change involve generating increased revenue for the system through payroll or individual taxation, incentives for later retirement, possible improved targeting of benefits for those relying solely or primarily on social security income, improved management of chronic impairments experienced by older workers and cost-effective policies for providing medical care benefits.

Although an aging population will bring about major challenges to social security, there is no reason to believe that the fundamental structure of the program must be altered in order that the program remain effective in meeting the needs of American families. While there are clear economic trade-offs involved in providing benefits for an aging population, the intergenerational compact provided by social security remains as a reasonable and appropriate structure within which such choices must be made. If the problems outlined above are addressed in a timely and strategic manner, we can look forward to social security celebrating its 100th anniversary as a strong and flexible program which meets the needs of the American people.

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## Chapter 2

# SOCIAL SECURITY: A SOURCE OF SUPPORT FOR ALL AGES

(Prepared by W. Andrew Achenbaum, Professor of History, Carnegie-Mellon University; and Senior Scholar, Institute of Gerontology, University of Michigan)

## A. INTRODUCTION

Social security—the Nation's largest and most successful domestic program—has reached a critical juncture in its development. Old Age Survivors and Disability Hospital Insurance (OASDHI) no longer enjoys solid popular support. Senior citizens worry that their benefits will be cut. Many younger Americans fear that social security will not exist when they are retired. Social security, once viewed as an institution whose importance transcended petty politics, now is at the center of partisan debates over the Federal deficit.

Social security's basic orientation has not changed much over time. The program's faithful loyalists have consistently maintained that it is an enduring source of support for all age groups. When times were good, the economy booming, and public confidence in Government high, few people expressed concern about the limits to extending the principle of social insurance in the United States. As long as the number of new contributors far exceeded the number of beneficiaries, legislators could liberalize existing provisions, expand coverage, and increase average benefits—and still point to huge surpluses in trust funds. Nurturing mutual responsibility through Federal initiatives was a relatively inexpensive investment.

Such a felicitous set of circumstances could not last forever. The program's creators fully recognized that as the system matured, adjustments would have to be made in social security's structure and financing. They could not have foreseen, however, that the transitional period would coincide with a decade of serious economic dislocation, political upheaval, and social unrest. The optimistic, expansionist philosophy that inspired planning after World War II changed to one of guarded hope that the best of the past could be preserved while addressing the considerable needs of the future. The crisis mentality of the last decade makes it difficult to persuade a skeptical electorate and conservative critics that implementing technical modifications will work unless the serious policy issues that have shadowed social security since its formative years are faced. Paradoxically, the boomerang effects of incremental policymaking (wherein legislative victories have sown the seeds for systemic confusions later on) no less than the mounting frustrations associated with ad-hoc recalibrations (that quickly fail to live up to policymakers' and voters' expectations) demonstrate the importance of turning our attention to major issues—those nagging questions that have long surrounded the objectives and scale of social insurance in the United States.

The future of social security hangs in the balance. We are less confident than ever before about the risks we can expect the Federal Government to underwrite. To put the issue bluntly: How much social insurance can we really afford? The case for social security must be made for generations of Americans who never lived through a Great Depression and cannot remember a time when the Federal Government did not play a major role in their lives.

The 1983 social security amendments succeeded for the moment in defusing the financial crisis in social security. OASDI trust funds appear solvent for the next half-century. Actuaries do not expect a short-fall in the HI trust fund for at least a decade. Yet, just because we have cleared up some financing woes does not mean that there are no longer any key matters of social policy before us. The problems that may becloud social insurance are not just actuarial or fiscal in nature, even though that is how they are usually viewed. Economic concerns are assuredly relevant, but they do not constitute the crux of the matter.

If we choose not to confront some of the critical questions that have shadowed debates over social insurance since the Progressive period, then I predict that the 1983 amendments will become yet another instance of tinkering with the system in ways that prolong the threat of a "legitimacy crisis." On the other hand, if we seize the opportunity to use the 1983 amendments as the basis for reasserting and clarifying goals and objectives that policymakers should keep in mind as they face the future, we can reorient OASDHI as it comes of age in an aging society. For Congress provided vital precedents—and left the door open—to rework the program in light of the cumulative impact of past policy decisions and in the face of pertinent societal trends that have too often been ignored. We must construct a coherent policy framework out of the implicit preferences and conflicting signals crafted in the technical changes embodied in this crucial piece of legislation.[1]

## B. THE DEVELOPMENT OF SOCIAL SECURITY

From the start, policymakers intended social insurance to afford protection against specific hazards associated with successive stages of life. Franklin Delano Roosevelt and his advisors concentrated on the plight of the aged poor because in the 1930's, old-age dependency was a major problem inadequately relieved by existing programs. The Great Depression had rent asunder the elderly's safety net. Firms stopped paying stipends to their superannuated workers. Private charities were overwhelmed by the increased demand for assistance. Local and State relief agencies imposed stringent eligibility criteria, but even then, could not help everyone in dire straits.[2]

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[1] I do this at greater length in "Social Security: Visions and Revisions," a Report for the Twentieth Century Fund.

Desperate, the elderly wrote to Washington pleading for help. Some older supplicants stressed that they could not feed, clothe, and shelter their adult children who were out of work. Middle-aged citizens sometimes wrote on behalf of their parents and the older generation: "Well whither my mother ever gets anything or not, I hope all the other old people that is intilted to it gets it soon, because there is nothing sadder than old people who have struggled hard all there lives to give there family a start in life, then to be forgotten, when they them self need it most." [3]

Policymakers sought to transcend the immediate economic crisis by providing a measure of security for all citizens. Through social insurance, the Federal Government committed itself to underwriting a system of income transfers that benefited every age group. The elderly would receive relief and future protection; their middle-aged kin would be freed to devote their attention to their children. By coordinating the old-age insurance program with a system of old-age assistance, the Federal Government was adopting a plan that "amounts to having each generation pay for the support of the people then living who are old." [4] The principles underlying titles I and II thus suggest a genuine—and imaginative—concern for addressing the vicissitudes of old age in the context of the family and the passage of generations.

In drafting the original legislation, a critical choice was made that greatly influenced the development of social security. The 1935 act established categorical programs that used "age" as a surrogate for identifying various social risks. But the elderly were not the only beneficiaries. Several titles dealt with the needs of citizens who were not old. Congress appropriated $4 million the first year and guaranteed at least $49 million annually thereafter under titles III and IX for the new Federal-State unemployment compensation program. Nearly $25 million was earmarked for aid to dependent children under title IV; another $3 million was to be spent on relief to the blind—title X. And just as title II facilitated the current working population's ability to prevent hardships in the years ahead, so too the architects of social security took steps to promote the general welfare of future generations. Under title V, Congress appropriated more than $9 million for crippled children, rural public services, and vocational rehabilitation; another $10 million was given to the Public Health Service for training new personnel and investigating diseases—title VI.

The pivotal 1939 amendments altered both social security's pool of potential recipients and its financing of transgenerational protection. Probably the most significant change was that Congress established monthly benefits for the survivors and dependents of retired workers. By introducing a whole new set of eligibility criteria and payment schedules for elderly wives, aged widows, widows with children, dependent children, surviving children, and under certain circumstances, the needy parents of workers who had died, policymakers underscored the importance of maintaining the family's integrity. "Safeguarding the family against economic hazards is one of the major purposes of modern social legislation," observed John McCormack in the House debate. "Old-age legislation, contributory and noncontributory, unemployment compensation, mothers' aid, and general relief by several States and then political subdivisions, aid to the blind and incapacitated, all have an important bearing on preserving the family life.[5] However, lawmakers did not devote as much attention to provisions affecting the unemployed, dependent children, and the blind as they did titles I and II. Social security advocates increasingly became preoccupied with the societal risks associated with the latter stages of the life course.

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[2] Lowitt, Richard and Maurine Beasley, eds. "One Third of A Nation: Lorena Hickok Reports on the Great Depression." Urbana, University of Illinois Press, 1981. p. 169; Old Age Pensions. Encyclopedia of Social Sciences, New York, Macmillan Co., vol. 11, 1937. pp. 456–7.

[3] McElvaine, Robert S., ed. "Down & Out in the Great Depression." Chapel Hill, University of North Carolina Press, 1983. pp. 84, 100, 108.

[4] Social Security Board. "Social Security in America." Washington, U.S. Government Printing Office, 1937; U.S. Congress. Senate. Committee on Finance. The Economic Security Act. Hearings, 74th Congress, 1st session. Washington, U.S. Government Printing Office, p. 1337.

Old-age dependency was not the most important hazard of modern life, but public officials were convinced that alleviating this risk would have a ripple effect throughout society, which would work to the advantage of all age groups. Providing more security in this area, they hoped, would not only bolster public morale, but also make citizens more security-conscious and thereby increase concern for protecting themselves and their children to the best of their ability.[6] Policymakers were willing to underwrite additional protection for older people because they believed that—in the long run—it would benefit an aging society.[7]

After World War II, OASI evolved in an incremental manner. Age 65 increasingly became perceived as the benchmark for the onset of old age. Over time, Congress instituted other age-based eligibility criteria. The inauguration of the disability program and efforts to liberalize title II to adapt to the changing roles of women and men reinforced the significance of defining coverage against risks on the basis of age. This administratively straightforward procedure avoided the stigma of "welfare" associated with some means-testing formula. Indeed, Americans preferred that Government officials reduce the risk of dependency, but take no initiative jeopardizing a fair return—and ideally, a handsome profit—on investments of time and energy. "A high level of economic security is essential for maximum production," observed John Kenneth Galbraith in his seminal *Affluent Society*.[8]

The strategy of broadening social security coverage and benefits in a careful and deliberate manner proved successful for more than 25 years. Most commentators were convinced that the landmark 1972 amendments were yet another instance of the efficacy of the politics of incrementalism. Edwin L. Dale, who wrote on economic affairs for the New York Times, was "persuaded that social securi-

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[5] Congressional Record, June 10, 1939. p. 6964.

[6] Brown, J. Douglas. "Economic Problems in the Provision of Security Against Life Hazards of Workers." American Economic Review, vol. 30, March 1940, p. 67; Bane, Frank, "Social Security Expands. Social Service Review," vol. 13, December 1939. pp. 608-9.

[7] Report of the Advisory Council on Social Security. Dec. 10, 1938. p. 18.

[8] Galbraith, John Kenneth. "The Affluent Society." Boston, Houghton Mifflin, 1958. p. 115. See also Lloyd A. Free and Hadley Cantril. "Political Beliefs of Americans." New Brunswick, Rutgers University Press, 1967. pp. 20–30, 178; Brown, J. Douglas. "The American Philosophy of Social Insurance." Social Service Review, vol. 30, March 1956. p. 3.

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ty at the worst is not a bad deal, and is safe, even for the young worker with 40 years of paycheck deductions ahead of him. It is not a bad deal, either, for the doctors and salesmen and other self-employed who tend to do the most squawking. Unless the world blows up, or the country goes bankrupt, it is highly likely that current workers will get back from social security more than they paid in if they live only a few years past their retirement age, and a great deal more if they live a long life."[9]

This line of reasoning still makes sense, but the age-specific nature of current entitlements often distracts us from remaining faithful to one of the most appealing features of the program's original vision. Social security clearly is older Americans' most important source of economic support, but the old are not the only people who benefit from social insurance. Roughly a quarter of all title II beneficiaries in 1940 were children; 45 years later, one out of eight recipients were under the age of 18. Most workers (or, more precisely, their dependents and survivors, in case of disability or premature death) are potential beneficiaries.[10] OASDHI's value to an average person throughout life needs to be emphasized in any campaign to reduce intergenerational tensions.

Thoughtful commentators and policymakers have always been concerned that the enactment and maturation of a governmental social-insurance program might pit the genuine, immediate claims of the old against the legitimate, future interests of the young. In forecasting a nation of elders in the making earlier in the century, social scientists and journalists speculated that satisfying the financial needs of older Americans might disrupt national production, consumption and inheritance patterns, and thereby threaten the stability of the country's economic and political institutions. "In no other country," observed a writer in 1933, "does the basis of age alone furnish so definite a line between a portion of the population recognized as economically efficient and socially attractive and that part of it which is neither useful nor particularly attractive."[11]

The potential for conflict between the needs of working people and the retired revived in the late 1970's. Analysts argued that policies adopted to meet the demands and problems of an ever growing elderly population might be "busting the U.S. population." Many predicted that the situation would only get worse as the "graying" of America continued. More than 25 percent of the Federal budget was already being allocated to underwrite the Nation's old-age retirement and health-care delivery systems. As the number of Americans living past 75 soars, costs inevitably will skyrocket.[12]

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[9] Dale, Edwin L. Jr."The Security of Social Security: The young pay for the old." New York Times Magazine, Jan. 14, 1973, pp. 8, 45.

[10] For a classic demonstration of this point, see Ida C. Merriam. "Young Adults and Social Security." Social Security Bulletin, vol. 31, August 1968. p. 3.

[11] Dallach, Marie L. "Old Age, American Style." New Outlook, vol. 162, October 1933. p. 50; see also, Warren S. Thompson, and P.K. Whelpton, "A Nation of Elders in the Making." American Mercury, vol. 19, April 1930. pp. 392-5; Chen, Arthur S.Y. "Social Significance of Old Age." Sociology and Social Research, vol. 23, July-August 1939. pp. 519-27; and Linton, Ralph. "Age and Sex Categories." American Sociological Review, vol. 7, August 1942. pp. 592-601.

[12] Califano, Joseph A. "Governing America: An Insider's View to the White House and the Cabinet." New York, Simon and Schuster, 1981. p. 398; Samuelson, Robert J. "Busting the

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Not surprisingly, public-opinion polls reveal that older people have more faith in the program than younger respondents. Men and women who think they will receive something doubt that social security will prove to be as good an investment for them as it was for their parents and grandparents.[13] In a marked switch from the overwhelming support that OASDHI had enjoyed in its formative years, Americans suddenly evinced considerable fears about social security's soundness. Media reports fanned concern. "Every time the press writes that social security has money problems," complained one Congressman, "we get a ton of letters and phone calls from people who want to be reassured."[14]

Senior citizens increasingly were portrayed in stereotypic ways. Those who wanted to show how blissful the elderly were compared to the rest of the population interviewed healthy residents in Sun City. Those who viewed the aged as drains on productivity and economic growth took a hard-nosed look at "dependency," and looked askance at ablebodied couples enjoying their leisure time. Indeed, some argued that the current rules are rigged to give senior citizens far more than was originally intended. "In enforcing their claims of generational privilege, the old undermine the younger generation's opportunity to enjoy the prosperity of its elders," declared Phillip Longman, age 26. "That portion of the nation's limited wealth squandered on its unneedy old must be substracted in equal measure from what can be invested toward future economic growth. The magnitude of these entitlements thus compromises the young's very ability to finance them, a conundrum made far more unjust by yet another burden: The unpaid bills the old have left behind."[15]

The inevitability of intergenerational warfare can be exaggerated, of course. The range of assets, interests and needs of the elderly population are too diverse to foster their mobilization as a monolithic, single-minded political force. There simply is no evidence yet that advocates of the aged's rights take a position on social security that is at odds with the views expressed by groups advancing the interests of children or young people. More importantly, the middle-aged usually do not organize along age-specific coalitions: Their role in mediating among the interests of various age groups is paramount.[16] Nevertheless, if current title II entitlements seem

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Budget: The Graying of America." National Journal. February 18, 1978. pp. 256–60; and Hudson, Robert B. "The "Graying" of the Federal Budget and Its Consequences for Old-Age Policy." The Gerontologist, vol. 18, October 1978. pp. 428–40.

[13] National Commission on Social Security Reform, memorandum no. 13. Surveys of Public Confidence as to Financial Status of the Social Security Program, dated April 7, 1982. See also Louis Harris and Associates, "1979 Study of American Attitudes Toward Pensions and Retirement." New York, Johnson & Higgins, 1979; National Council on the Aging, Inc., "Aging in the Eighties: America in Transition." Washington, D.C. The National Council on the Aging, Inc., 1981; Peter D. Hart Research Associates, "A Nationwide Survey of Attitudes toward Social Security." Washington, D.C., The National Commission on Social Security, 1981. p. S4.

What made this pattern all the more disturbing is that it paralleled a longer trend of popular disenchantment with governmental effectiveness. Public opinion polls had documented a dramatic decline, beginning in 1964, in Americans' trust in government. Surprisingly, the steepest drop was registered among those over the age of 65. See Harold R. Johnson, et al., "American Values and the Elderly." Ann Arbor, Institute of Gerontology, 1979. p. S–64.

[14] Quoted in "Members of Congress and Aides Seeking Ways to Keep Social Security Solvent." New York Times, Jan. 2, 1981, p. A11.

[15] Longman, Phillip. "Taking America To The Cleaners." Washington Monthly, vol. 14, November 1982. p. 26.

[16] Foner, Nancy. "Ages in Conflict." New York, Columbia University Press, 1984.

unduly generous, then support for social insurance becomes commensurately precarious. Proceeding on the belief that one age group benefits at the expense of another will hamper rational consideration of the Nation's welfare priorities and resources en bloc.

Many neo-liberals and neo-conservative critics who are in the vanguard of the baby-boom birth cohort are suggesting that it is now politically and economically feasible to reduce the relative importance of Federal expenditures for old-age and survivors insurance. Such a tack is possible. But proposals to constrain the future growth of OASI merit serious consideration only if they were implemented while increasing pension coverage and average retirement benefits under other retirement resources in the private and public sectors. Whatever savings are ultimately realized in the area of income maintenance, moreover, should be earmarked to cover other social-insurance expenditures, especially those related to the health-care needs of very young and old Americans. Considering these steps, in my opinion, requires us to transcend the artificial boundaries reified in categorical programs and to move beyond erroneous assumptions about OASDHI's purposes and operations.

We should begin by acknowledging there never has been a genuine consensus in this country over what constitutes a credible and sound social security program. Americans surely count on receiving something when they become disabled, widowed, or retire, but there is no empirical basis for asserting that they plan their lives around current rules, much less that they truly understand how the program operates. Furthermore, precisely because the structure and dynamics of American life will continue to change in the future, policymakers are in a bind. They must act as if they can anticipate developments down the road, knowing full well they cannot begin to divine the future. Future problems and opportunities surely will not be the same as those in the present, but public officials must act as if they will be. Hence, in presenting its views on the long-term financial status of the Nation's social insurance program, the 1938 Advisory Council solemnly affirmed that "we should not commit future generations to a burden larger than we would want to bear ourselves."[17] Similarly, as he signed the 1983 amendments into law, President Reagan declared that "the changes in this legislation will allow social security to age as gracefully as all of us hope to do ourselves, without becoming an overwhelming burden on generations still to come."[18] To fail to pay obeisance to future generations is politically dangerous. To pretend that one knows what burdens future Americans have been spared is more than a little presumptuous.

To provide continuous protection over the life course does not necessitate arbitrary trade-offs between young and old. Rather than dwell on the competing interests of different cohorts, it would be wiser to develop programs that build on the fact that we live in a society in which the life cycle itself has become fluid. Becoming 65 no longer conjures up the image of obsolescence that once prevailed. Indeed, in an aging society—one in which two-thirds of all the changes in life expectancy have taken place since 1900—the future needs of the aged can most effectively be addressed by taking steps to enhance people's opportunities at earlier stages in their lives. Demographic trends are not the only factor at play here. During the past 50 years, the labor force has become more heterogeneous. Differences between blue-collar and white-collar workers have become less obvious as variations in earnings potential and retirement income by gender, race, and education have grown more significant. Distinguishing between the public and private sectors of employment has become anachronistic. Current definitions of risk, which presume that normal hazards occur at predictable stages of life, cannot take account of such diversity. The goal of social insurance must be to provide economic security—a living wage—for working people who find themselves in very different circumstances at various stages of life.

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[17] Brown, J. Douglas. "Essays on Social Security." Princeton, Industrial Relations Section, appendix, p. 47.

[18] "Reagan Signs Social Security Changes Into Law." New York Times, Apr. 21, 1983, p. 9.

Similarly, in establishing rights under social insurance, we must bear in mind that social security properly deals with the setting of human life rather than presuming either that Government knows (best) how individuals choose to live their lives, or that Government does best when it encourages Americans to think of themselves as a crowd of individuals pursuing their dreams in a free market. In making successive changes in the Social Security Act, Congress has reserved "the right to alter, amend or repeal any provision"—a right no Supreme Court ruling has ever challenged. Rather than bemoan this historical truth, we should take advantage of it. Recognizing that social security is not the only way to provide for the vicissitudes of life means that we simply cannot afford to discuss the program's goals and financing in a vacuum. Policymakers must take account of the role that other institutions—the family, the church, voluntary groups, private organizations—play in American contemporary life. These mediating institutions facilitate our individual and collective efforts to attain a measure of security from the risks of modern times. They afford the average American an extraordinary range of options and thereby promote individual choice.

## C. POLICY RECOMMENDATIONS

What the Nation needs is better—and sometimes indirect—coordination among these various institutions to fill in gaps and correct inequities in existing programs. With these thoughts in mind, I propose that a 3-pronged strategy be considered as the first stage of renewing American social insurance so that it continues to guarantee every citizen's right to basic protection from the hazards of the marketplace in an ever-changing world:

### 1. Job Training for Older Workers

Policymakers should build on the retirement precedents in the 1983 social security amendments and other Federal legislation as well as development in the private sector. Mandatory retirement, I believe, should be eliminated, even though this will not greatly alter the trend toward earlier exits from the labor force. Far bolder and more effective would be efforts to eliminate anomalies in the treatment of older workers in job-training programs and employment practices. Only 3.1 percent of all Americans over 65 participated in adult education programs in 1981, compared to 12.8 percent of the entire population over 17.[19] With few exceptions, corporate training programs are geared to adapt introductory-level workers and employees under 40 with potential to future opportunities and needs in the firm. Yet if we are to capitalize on the intellectual resources of aging workers, greater emphasis must be placed on preparing people to pursue two or three careers during their working years. Universities, vocational schools, and other post-secondary centers should try harder to recruit mature students to pursue general-education curricula and take specialized courses even if they do not matriculate for a degree.

In addition, Government officials and corporate planners should facilitate older people's (re)entry into the marketplace. Public policies should encourage experiments with work programs. Surely there are better ways to solve employees' grievances than helping them to qualify for disability benefits or encouraging them to take early retirement. Work schedules and benefit packages could be adapted so as to increase the likelihood that men and women in the third quarter of life can earn money and/or increased health-care protection through part-time employment. Corporate planners might profitably take cues from major corporations, such as McDonald's and the Atlantic Richfield Co., that have sought to create a climate in which both employees and employers benefit from the maturity and reliability of men and women in their seventies. These pacesetters have created job banks, job sharing, ride-sharing, and flexi-time arrangements, and used corporate associations and newsletters to enhance their human-resource management capabilities.[20] Greater priority should be given to federally seeded volunteering and public-service initiatives, such as those already underway through the Retired Senior Volunteer Program and the Federal Senior Community Service Employment Program.

Consonant with the transgenerational features of social insurance, I would advance an even more daring idea: Why not permit workers to borrow against their future pensions in order to pay for training that might enhance their worth and longevity in the labor force? Particularly in its experimental stages, policymakers would want to impose limits on such an initiative. Workers should not be permitted to take out for educational purposes more than they have already set aside for OASDHI protection. The future benefits received by people who opt for this provision will have to be based on F.I.C.A. contributions adjusted for educational outlays. The merits of this revision, in my view, are worth the difficulties of implementation. Investing sensibly in the future is ultimately cheaper than compensating for past circumstances often beyond people's control. At a time of rising tuitions and increased pressures on workers to upgrade their skills, this new source of money might make a difference between job burnout and career advancement. Thus, this measure serves as yet another way to bridge job training and retirement policies, with the needs and interests of middle-aged taxpayers uppermost in mind. For ideally, social insurance provides a floor of protection to people continually in transition.

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[19] Kay, Evelyn R. "Participation in Adult Education, 1981." Washington, National Center for Education Statistics, 1982, p. 6.

[20] On McDonald's efforts (and why they think it so important) see U.S. Congress. House. Select Committee on Aging. New Business Perspectives on the Older Worker. Hearings, 97th Congress, 1st Session. Oct. 28, 1981. Washington, U.S. Government Printing Office, 1981. pp. 56-67. On ARCO, see "Corporate Employee Relations. Making the Right Decision." Los Angeles, Atlantic Richfield Co., 1982; Blair A. Hyde, manager of Senior Worker Policies and Programs, kindly permitted me to read internal memoranda about the ways ARCO seeks to utilize retired employees.

### 2. EXPAND SSI PROGRAM

More than ever before, policymakers must insure that social security really does provide an adequate basis of financial support for all Americans. As a result of the 1983 amendments, every American worker eventually will be covered under OASDHI. Having achieved this long-range goal of universal coverage, policymakers must now take steps to insure that his objective is a genuinely meaningful achievement. The best way to proceed, I believe, is to adhere unequivocally to a policy choice made before the first title II benefit was ever paid. Reinhold Hohaus, Vice President and Actuary of the Metropolitan Life Insurance Company, argued in "Equity, Adequacy and Related Factors in Old-Age Security" (1938) that the principle of "equity" had to be acknowledged in social insurance. Nevertheless, guaranteeing a "precise" relationship between contributions and benefits should be secondary to the goal of assuring "social adequacy:"

> Just as considerations of equity of benefits form a natural and vital part of operating private insurance, so should considerations of adequacy of benefits control the pattern of social insurance. * * * Consistent with this philosophy, [social insurance's] first objective in the matter of benefits should, therefore, be that those covered by it will, so far as possible, be assured of that minimum income which in most cases will prevent their becoming a charge on society. Not until this is accomplished should financial resources (whatever, if anything, may remain of them) be considered as available to provide individual differentiation aiming at equity.[21]

Particularly at a time in which the "fairness" issue looms large, it is worth recalling that social security's own policymakers expressed reservations about the wisdom of increasing the elderly's benefits dramatically under the 1939 amendments. "The only result," Edwin Witte confided in a memorandum to Wilbur Cohen, "may be that the present younger workers are taxed for the increased benefits to the older people without any assurance whatsoever that they will get similar benefits when they are old."[22] The risk of future intergenerational inequities, however, seemed less important than building a floor of support for needy members of the population.

Have subsequent social security amendments maintained a proper balance between adequacy and equity? No definitive answer is possible. Robert J. Myers has demonstrated that 1982 benefit levels were not much above what had been anticipated under the 1939 legislation; on the other hand, there had been significant expansion beyond that intended in the 1950 amendments. Similarly, the 1977 amendments increased benefit levels somewhat beyond what had been anticipated when benefits were raised 15 percent in 1969, but they are currently lower than had been planned under the 1972 legislation.[23]

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[21] This essay, which first appeared in the June 1938 issue of "The Record of The American Institute of Actuaries," is reprinted with comments stressing its historical significance in "Social Security: Programs, Problems, and Policies." Haber, William and Wilbur J. Cohen, eds. Homewood, IL, Richard D. Irwin, Inc., 1960. pp. 61-3.

[22] Edwin Witte to Wilbur Cohen, July 3, 1939, in the "Chairman's Files," National Archives, Record Group 47, 095.

From this historian's perspective, Myers' analysis should be taken a step further. Prevailing assumptions about social security entitlements are generally too pat, because most commentators ignore the temporal process in which any set of entitlements came into being. After all, the monthly retirement benefits to which older Americans can now lay claim are fundamentally different from the ones to which they were initially entitled in 1935 or 1939. Revisions in the ways in which title II benefits were calculated over time occurred because of political compromises, shifts in program objectives, and alterations in financial resources. While such amendments were enacted in an incremental manner, they were not inevitable. Under certain circumstances, there is no tension between entitlements and the expectations they nurture: The reasonableness of extending current benefits overrides cost considerations or any other constraints. But just as entitlements are never created in a vacuum, so too yesterday's expectations do not ineluctably become tomorrow's entitlements. Rising expectations are not always realized. For additional entitlements to be gained, socio-economic conditions must be auspicious, and the political maneuvering must be successful. The historical record, in short, provides no clearcut basis for determining the ideal present and future relationship between the adequacy and equity of social security benefits.

Nor do experiences in other countries offer any obvious guidelines. Like the United States, some countries index pensions by prices, but others adjust according to changes in wages. Several nations raise benefits more frequently than once a year. Such variations notwithstanding, comparing the old-age pensions for American workers with average earnings with those of employees in a dozen western advanced-industrial nations indicates that the replacement rate in the United States falls into the intermediate range. Individual beneficiaries in this country fare somewhat worse than their European counterparts, but benefits for couples are generally higher here than elsewhere.[24] While historical analysis and cross-cultural comparisons do not point to any obvious conclusions, they nonetheless do remind us that there is more latitude for serious reflection of a wide range of alternatives than lawmakers might otherwise think are appropriate.

For instance, I would increase Supplemental Security Income (SSI) payments to ensure that those dependents of workers with minimal covered earnings and irregular career patterns are guaranteed a benefit equal to the poverty level. The case for this revision does not depend just on historical precedent; it can be made on grounds of empirical evidence and appeals to justice. No other component of our existing retirement system will ever provide social security's universal coverage. Those who do not benefit from IRA's or other retirement vehicles tend to be those who are the poorest paid and who have irregular work histories. Insofar as this Nation values the work ethic—and it does—then we should be prepared to guarantee that no one who has made a contribution to America's economic growth should be denied the right to a minimal standard of living in old age.

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[23] Myers, Robert J. "Social Security." Homewood, R.D. Irwin, 2nd ed., 1981. pp. 261–3; idem., "Relative Changes in Social Security Benefit Levels." Memorandum no. 33, dated June 30, 1982 for the National Commission on Social Security Reform.

[24] Horlick, Max. "The Earnings Replacement Rate of Old-Age Benefits: An International Comparison." Social Security Bulletin, vol. 33, March 1970, pp. 3–16. See also, Alan Fox. "Earnings Replacement Rates and Total Income." Social Security Bulletin, vol. 45, October 1982, pp. 3–23; Myles, John. "Old Age in the Welfare State." Boston, Little, Brown, 1984. pp. 54–62.

What about those who have not earned the right to a sufficient income? The original vision of social security provides guidance: From the very beginning assistance was deemed an integral part of the social-insurance umbrella of protection. Social security benefits, tilted from the outset to provide a higher rate of return for lower-income workers, were designed to provide a measure of support to those people whose activities have not necessarily been remunerated in earnings that truly or fairly represent the value of their contributions. Existing laws, moreover, already reflect this principle, though it is honored mainly in the breach. If SSI payments constitute the minimal standards of decency and health that this Nation feels it must extend to every aged, blind, and disabled person, then no SSI beneficiary should have a "real" income that falls below the official poverty line. Achieving this objective in turn requires better coordination among various Federal anti-poverty measures. On the one hand I would calculate the dollar worth of food stamps and other in-kind transfers in determining a person's income needs. On the other hand, I would freeze all "special" minimum benefits under social security enacted between 1939 and 1983 and use SSI as a "safety net" for all age groups.

### 3. Recognition of Changing Status of Women

Social insurance must be adjusted to accommodate the changing status of women. Earnings-sharing should be instituted over a 30-year period because it promotes security for the career homemaker without being unfair to the working wife. Closely tied with the implementation of this reform should be the gradual elimination of the 50-percent spousal benefit. Marriage no longer serves as a potentially universal vehicle for preventing economic adversity to a woman or man with limited employment opportunities and earnings potential. Indeed, single women—particularly those who have been divorced and widowed—have more acute needs than most married people.[25]

Consideration also should be given to providing care-giver credits. In calculating average earnings for determining social security benefits, there should be no penalty if an individual chooses not to engage in full-time paid employment in order to care for a family member. If present trends continue, four-generation families will increasingly become the norm. By the end of the century, more and more working people will be looking to non-familial institutions to help not just with care of children, but also to provide meals, housekeeping and daycare arrangements for the frail elderly and other dependents. Some of these services will be purchased in the private sector; others will have to be provided by the Federal Government, though in an age of fiscal austerity, the ability of the public sector to provide adequate support is questionable.[26] In this context, we must be willing to acknowledge that the care that family members provide for one another is a time-tested, generally unpaid service that can be quite expensive to workers and taxpayers if bought in the marketplace or financed through Government. Underwriting this intergenerational service through social security, therefore, is less costly than other options. Skeptics might object that providing family-care credits only in cases where relatives are assisted is unfair because it gives preferential treatment to caring for family members. I would counter by noting that such a bias is discriminatory only if the caregiver's status were in question. It is not: Decisions about such credits would be made independent of a potential beneficiary's marital status or household arrangements.

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[25] Critics surely will charge that eliminating "dependent" benefits puts large segments of the population at risk. They have defeated previous proposals to freeze minimum benefits by showing how it would hurt aged widows. To allay fears, it is imperative that a secure "safety net" demonstrably be in place. Improving SSI benefits would deal with this problem in the short run, but it alone is not enough.

These three proposals reinforce social security's essential role as the foundation for all income security initiatives in the United States. Rather than use OASDI as a safety valve for unemployment among older workers, I am laying the foundations for a more imaginative human-resource policy. Rather than compartmentalize the adequacy and equity functions of social insurance, my recommendations seek to mesh cybernectic interactions in a more coherent manner. Rather than presume to resolve the tensions between individual rights and family responsibilities, they offer a way of providing benefits that is neutral in its treatment of marriage without undermining the crucial role families play in American society. To corroborate the social insurance principles that animate OASDHI, they emphasize that social security is an essential expression of community that at once transcends and links together generational interests. Note, however, that viewing social security as a floor for other programs frankly acknowledges the limits of any social welfare policy. These revisions, in fact, point to one overriding rule that should be followed when contemplating any social security reforms: Lawmakers henceforth should do whatever is necessary—but no more—to establish and maintain a socially acceptable level of income for all Americans.

## D. CONCLUSION

This package offers a balanced response to the challenges posed by developments in recent American history, but the dynamic equilibrium it hopes to achieve will be ephemeral. What is considered "adequate" today may be seen as a substandard program tomorrow. Any scheme that attempts to insure fairness without substantially increasing outlays will not please everybody. The reason for this goes well beyond cost considerations or perceptions—valid or

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[26] Masnick, George and Mary Jo Bane. "The Nation's Families," Boston, Auburn House Publishing Co., 1980; Califano, Joseph. "The Four-Generation Family." Annals of the American Academy of Political and Social Science, vol. 438, July 1978, pp. 96–107; Shanas, Ethel. "The Family as a Social Support in Old Age." The Gerontologist, vol. 19, April 1979, pp. 169–74.

biased—that some segments of the population are benefiting from changes in the status quo more than others.

Readjusting the tension between adequacy and equity, after all, is not just a matter between the sexes. Social security's architects and reformers have been wise in not introducing differential treatment along racial or ethnic lines. And yet, we cannot be blind to the fact that the question of "social adequacy" in this country is acutely a racial and ethnic matter.[27] Differences in black-white life expectancy at various ages put minorities at a disadvantage vis-a-vis whites throughout the life course. Efforts to establish universal coverage under social security must take account of the fact that millions of illegal Hispanic aliens are working in this country without the protection afforded by social insurance. All of which is to say that we dare not allow erroneous and self-serving cliches about social security being a middle-class institution to preclude disinterested analysis of the program's longstanding "welfare" function. Insofar as social security is one of this Nation's primary weapons in the continuing war against poverty, we need to assess how its various programs serve to meet the basic needs of all Americans regardless of age, gender, race, or origin.

Nevertheless, the social security revisions proposed here will not suffice in and of themselves. We cannot rely solely on the supplemental security income program to insure a floor of support, because it is not our only anti-poverty program. This Nation has proportionately fewer children than at any time in its history, yet a greater percentage live in disadvantaged circumstances. Nearly half of the children born today will become eligible for child support before reaching age 16. Roughly 50 percent of all children living in female-headed households are poor; only 11 percent of the absent fathers of young AFDC beneficiaries pay any child support.[28] Thus efforts to reform AFDC and other means-tested schemes must begin rather than end with the proposition that public assistance is linked to OASDHI. I urge that a proposal for child support insurance, developed at the Institute for Poverty Research, be tested. Under this program, all parents who live apart from their children are liable for a tax on their gross income for child support. This venture promises to increase the economic security of the very young while reducing case loads and welfare costs.[29] For the sake of our future—not just to placate contemporary critics—we must scrutinize benefits and services targetted across the spectrum. Only in this way can social insurance serve the young and middle-aged as well as the old in a pluralistic society.

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[27] 1971 White House Conference on Aging. "Toward a National Policy on Aging." Final Report, Washington, Government Printing Office, vol. II, 1973. pp. 177-96; Thompson, Gayle B. "Blacks and Social Security Benefits: Trends, 1960-73." Social Security Bulletin, vol. 38, April 1975; pp. 30-40; and Abbott, Julian. "Socioeconomic Characteristics of the Elderly: Some Black-White Differences." Social Security Bulletin, vol. 40, July 1977. pp. 16-42. Farley, Reynolds. "A Narrowing Gap?" Cambridge, MA, Harvard University Press, 1985.

[28] Pifer, Alan. "Perceptions of Childhood and Youth." Annual Report Essays. New York, Carnegie Corporation of New York, 1983. pp. 157-67; U.S. Department of Health and Human Services. "Child Support Enforcement." Washington, Government Printing Office, 1983. pp. 18, 28; Preston, Samuel H., "Children and the Elderly in the U.S." Scientific American, vol. 251, December 1984. pp. 44-9. U.S. Congress. House. Committee on Ways and Means. Children in Poverty. Committee Print, 99th Congress, 1st session Washington. U.S. Government Printing Office, 1985.

[29] Garfinkel, Irwin. "The Role of Child Support Insurance in Antipoverty Policy." Annals of the American Academy of Political and Social Science, vol. 479, May 1985. pp. 119-31.

Paradoxically, although public philosophers have been quite vociferous in debating the merits of distributive justice, Americans have been less inclined to talk about what we owe one another. "Our sense of citizenship, of social warmth and a shared fate," laments George Will, "has become thin gruel." [30] Does this imply, at bottom, that the ideal of mutual responsibility long associated with social insurance has become so threadbare that it can be discarded as chimerical? Not at all. Neo-liberals and neo-conservatives alike should take their cue from Senator Bill Bradley who in the midst of the debates over the 1983 amendments noted that "social security is the best expression of community that we have in this country today." [31]

Under the scenario I am sketching out, social security would remain a universal program, and would continue to operate on a pay-as-you-go basis. But the future scope and growth of benefits depend on other developments in the political economy. Some commentators predict that it will be harder in the future to maintain the rate of return that beneficiaries have enjoyed thus far. Experts disagree, however, on the extent to which the baby boom generation may or may not get its money's worth. If by "equitable" one assumes that workers will get benefits roughly equal to their employer/employee contributions, then it appears that high-income, single male workers will not get a full return by the end of the century. Single female workers with maximum covered earnings are in a more favorable position, because women tend to live longer than men and thus can expect to receive greater lifetime benefits. And "if the payroll tax rates are increased to a sufficiently high level so that the system will be on a self-supporting basis, the failure to receive one's 'money's worth' will also apply to the average-wage earner." [32] In plain English this means that if social security financing is viewed as self-contained and Old-Age and Survivors Insurance is treated as if it were the only source of retirement income, then we are heading for disaster.

But such worst-case forecasts very often overlook or underestimate the extent to which workers with above-average earnings in the future can—and will—rely on personal savings, IRA's and private pension plans to supplement their OASDHI benefits. They also tend to discount the role that an expanded SSI program might play for the lower-income retiree.[33] Indeed, if we are willing to admit that macro-economic trends will affect individuals' "equity" in the system, then we must acknowledge that the whole question of intergenerational equity is confounded by matters of capital investment and national priorities. To what degree should tomorrow's elderly benefit from future gains in productivity? To what extent should their well-being be insulated from downturns in the economy? What proportion of our country's resources should be allocated to guarantee that social security benefits are equitable and adequate? Should there be a limit placed on Federal expenditures? If so, how should that limit be established? As a percentage of the GNP? A share of the current budget? These are tough questions that can only be answered satisfactorily if OASDHI's financial prognosis is assessed in light of other retirement vehicles. The issue of old-age security will not be adequately addressed unless we view it as an issue in which all age groups have a stake.

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[30] Will, George F. "Statecraft as Soulcraft." New York and Schuster, 1983, p. 45; see also, Morris Janowitz. "The Reconstruction of Patriotism." Chicago, University of Chicago Press, 1983.

[31] Congressional Record, vol. 129, Mar. 24, 1983. p. S4098.

[32] Myers, Robert J. "Money's Worth Comparison for Social Security Benefits." NCSSR memorandum no. 45, dated August 12, 1982. p. 5; Schieber, Sylvester. "Preserving Social Security." Washington, Employment Benefits Research Institute, 1982. pp. 29–30; Weaver, Carolyn. "The Crisis in Social Security." Durham, Duke Policy Studies, 1982, pp. 188–9.

[33] Munnell, Alicia. "The Future of Social Security." Washington, Brookings Institution, 1977. p. 58.

Treating social security as neither a covenant nor a contract, but rather as an expression of community reaffirms some of the program's most important traditional values. It underscores the system's central role in American life: No other bureaucracy is so well positioned to assure everyone regardless of race, gender or age the financial wherewithal necessary for a minimal standard of living. At the same time, it sets an agenda which acknowledges that sustaining mutual interdependence in the American commonwealth presupposes both a shared past and a common future. For if a major function of social insurance in the United States is to promote flexibility and to maximize each person's options in a highly fluid, uncertain and technocratically driven society, social security bears major responsibility for insuring that fundamental protection is afforded across the public and private sectors.

Can we afford such compassion in the name of justice? Yes—but let us be honest and admit that our humanitarian impulse works to our enlightened advantage. As a people, we consider it to be our national interest to spend billions on defense and to rebuild roads and bridges. Does it not make as much sense to allocate funds to revitalize our human resources? Are we not protecting ourselves by promoting "welfare" in the truest sense of the term?

The meaning of community embodied in OASDHI is fragile indeed. We cannot depend on it yet we cannot live as a Nation without it. As a people, we must constantly renew our affirmation to perduring values while we reshape this enduring social institution to meet basic national objectives. How we treat our fellow citizens and our future selves under the principle of social insurance thus mirrors, for better and for worse, what we take to be the essential quality and tenor of American life.

# Chapter 3

# EMERGING ISSUES IN DISABILITY POLICY

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## A. INTRODUCTION

Social security disability insurance plays an overwhelmingly important role in the Nation's public policy toward disability. Just as old age insurance has lifted many of the Nation's elderly out of poverty, so disability insurance has maintained the income of this Nation's disabled citizens, raising them above poverty and protecting them against devastating medical costs. Although statistics have a numbing effect, they do give a sense of how disability insurance dwarfs the other public disability programs. Of the $67 billion spent on public and private income transfers related to disability in 1982, disability insurance accounted for $18.8 billion or 28 percent. In addition, disability insurance provided an entitlement to medicare worth an additional $9.8 billion in 1982.[1]

The importance of disability insurance can also be made more personal. When Congress amended the program in 1960 to permit workers of all ages—not merely those 50 or older—to receive disability benefits, the social security press office wrote a story that featured Homer Philips of Johnstown, PA. He was a polio victim at the age of 19, but had previously worked in a lumber yard and a bowling alley. Because he had accumulated enough covered quarters, he qualified for disability insurance. Instead of a life of grinding poverty, Mr. Philips received the security of a lifetime pension. By 1982, 2,604,000 other workers, each with their own stories, had joined Mr. Philips. Along with these workers came 366,000 spouses and 1,004,000 children, each of whom received a supplementary benefit from social security. The benefits for the disabled workers alone averaged $441 per month.[2]

In a sense, the strengths and accomplishments of disability insurance are also its weaknesses and shortcomings. The strength of the program lies in the statistics already cited. The program has expanded the Nation's retirement system and has provided workers of all ages and their dependents with the security of knowing they can leave the labor force if their income should fall and their health deteriorate. Because this program does its job so well and, in effect, defines the Nation's disability policy, it has put retirement at the heart of disability policy. That, in turn, exposes the program's shortcomings, since retirement does not provide the best basis for disability policy. As a Nation, we can do better; handicapped people should not have to retire in order to gain entrance to the social welfare system. As President Reagan has noted, disability programs "don't always point toward independence and jobs."[3]

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[1] Berkowitz, Monroe. "An Overview of the Economics of Disability." Unpublished paper prepared for the Conference on the Economics of Disability, April 1985. p. 15. (Hereafter cited as Monroe Berkowitz, An Overview.)

[2] U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means. Committee Print, 98th Cong., 1st sess., Washington, U.S. Government Printing Office, 1983, p. 73.

Policymakers should, therefore, give serious thought to improving disability policy. Although crises produce their own sense of urgency, the Nation does face what amounts to a deadline for the creation of a disability policy that extends beyond retirement. In the year 2010, more than 12 percent of the Nation's population will be between 55 and 64. The median age of disability insurance beneficiaries has hovered around 55. Should the trend continue, and no evidence exists to predict it will not, then 2010 marks the beginning of the decade in which the largest single cohort of the population stands the greatest risk of becoming disabled.[4]

That is not to say that there is anything radically wrong with the social security disability insurance program. It will continue to distribute income to people in need of it. On the other hand, the program relies on some implicit assumptions, the products of its history, that have a produced a program designed more for the elderly than for the disabled.

The broad sweep of the program's history provides a backdrop against which to view those assumptions. For purposes of analysis, the history of the disability insurance program fits into four eras. The lines of demarcation between the eras remain fuzzy, and the characterization of the eras themselves reflect subjective judgments; for all of this subjectivity, however, this framework reveals the programs' development in bold outline.

## B. THE STAGES OF THE DISABILITY INSURANCE PROGRAM

The first era lasted from 1937 to 1956 and involved bureaucratic planning for a disability program by employees of the Social Security Board and later (1946) the Social Security Administration. These planners adopted a definition of disability for their proposed program from an insurance contract issued by the Federal Government to the veterans of World War I. This definition required a person to be totally unable to work before he or she could collect disability benefits. The planners recognized how difficult it would be to separate people with the ability to work from people who were disabled, yet they believed they had the administrative skill to make the separation. As they contemplated the program, the planners insisted on the importance of uniform national administration, away from the control of private doctors and lawyers. The planners saw advocacy as antithetical to objectivity.

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[3] "Reagan Says U.S. Aid Hurts Disabled." Washington Post, Nov. 29, 1983. p. A-2.

[4] "Aging America: Trends and Projections." Prepared by the U.S. Senate Special Committee on Aging in conjunction with the American Association of Retired Persons, second printing, 1984. p. 5.

In 1952, however, the effort to achieve objectivity in disability determination was undercut by the political process. In that year, the Social Security Administration agreed to share power with the States in declaring someone disabled. This decision undermined the long years of planning. When a disability insurance program finally arrived in 1956, it permitted the States to enter into a partnership with the Federal Government in which the States agreed to process disability cases and make the initial decisions about an applicant's eligibility. The very fact that States were allowed into the process seriously compromised the effort to achieve uniform national administration. The political process adopted the definition of disability from the initial planning process and applied it to an administrative setting that had never been contemplated by the planners.

The second era in the history of disability insurance lasted from 1956 until 1972 and involved the implementation and expansion of the disability insurance program that had been created in 1956. During this stage of the program's history, disability insurance benefited from a consensus that applied to all of the components of social security. This consensus had the beneficial effect of raising the level of benefits and of providing disability beneficiaries with many of the same services as old age beneficiaries. The most important of these services concerned health insurance. In 1972 Congress legislated medicare benefits for the disabled, although a 2-year waiting period was applied.

In addition to a belief in the need for larger benefits, the consensus on social security extended to confidence in the administrative skill of the Social Security Administration. Many people believed it to be a highly stable organization with a strong commitment to service. As a result, Congress entrusted this organization with two important assignments in the field of disability. It instructed the Social Security Administration to initiate a program of black lung benefits for coal miners, as well as a welfare program, created in 1972 and begun in 1974, for the aged, blind, and disabled (supplemental security income).

These programs, like many of the others created during this period, later received criticism for being overly generous. Black lung, in particular, came to be regarded as a special interest program that benefited coal miners at the expense of the general public. Like disability insurance, however, this program filled an important gap in the Nation's social welfare system. The case of one coal miner whose problems occurred before the passage of black lung illustrated the existence of this gap.

In August of 1953, this coal miner received notice of a layoff in his mine. For the next 2 years, after exhausting his unemployment compensation benefits, he scratched out an existence as a tenant farmer. Although he had contacted polio as a child, he had never been treated for it. In February of 1957, however, he was admitted to the hospital where many things were found wrong with him. He had high blood pressure and was often short of breath. Once out of the hospital, the man applied to the vocational rehabilitation program in the hope of receiving vocational training for a job only to be rejected. The man had no choice but to accept $39 a month from welfare, an inadequate and temporary solution to his problems. In

1960 he heard about social security disability insurance and brought his case to that program, only to be told that since he was not totally disabled, he was still expected to work. The mines had no openings, particularly for someone with the miner's physical problems. The man fell through the cracks of the social welfare system, in between ill health, unemployment, and disability. The black lung program helped to fill those cracks.[5]

During this period, black lung remained a relatively minor program, and disability insurance emerged as the Nation's major disability program. Because social security proved to be such a strong vehicle for the expansion of social welfare programs, few people questioned the assumptions on which disability insurance rested.

The primary assumption equated disability and old age. Since disability was assumed to resemble old age, the disabled were regarded as, in effect, the pre-old who should be allowed to retire from the labor force. A strong positive correlation developed between the growth of the program and a decline in labor force participation among men aged 45–54. In 1956 the "nonparticipation rate"was 3.5 percent; in 1977 and again in 1980 it peaked at 8.8 percent.[6]

Many variables intervened between the disability insurance program and the labor force participation rate, yet the correlation suggested that disability insurance caused, or at least encouraged, people to withdraw from the labor force. Alternatively, disability insurance provided employers with an acceptable means of replacing older workers with younger workers. In this sense, the rise in the disability rolls during the seventies helped to ease baby boom and female workers into the labor force. Some of the people who retired, no doubt, should have withdrawn from the labor force, and only the lack of an alternative form of income prevented them from doing so before 1956 (as was the case with the coal miner). On the other hand, part of the problem lay in the relatively high replacement rates the program began to offer in the seventies; these high replacement rates reflected, in part, a lack of attention to disability insurance and the assumption that legislative changes in old age insurance should also apply to disability insurance. When, for example, Congress removed the age limitation from the program in 1960 and opened the disability program to workers of all ages, it failed to see that average wages of younger workers might be higher than average wages for older workers and that disability insurance for the young would replace a higher percentage of income than would old age insurance for the elderly.

More than this sort of technical glitch marred the disability insurance program. Because of the model adopted from old age insurance, disability insurance involved a hard and fast choice: One was either disabled or not in the same manner as one was either 65 or not. Although appropriate for the elderly, this binary pattern did not reflect the nature of disability. Partial benefits might have eased some of the administrative burden on the program by not forcing disability examiners to draw a single line between people who were expected to work and people entitled to retire. The basic model, developed for old age and survivors insurance, failed to permit this alternative. In the social security system, partial benefits went only to people who had not earned full benefits: People who retired early, dependents, and spouses. Everyone else received a full benefit which was differentiated by a person's average wages or "average indexed monthly earnings." Current need never figured directly into benefit amounts; only past earnings mattered. This reasoning, translated into the disability program, meant that a person suffering from lower back pain and a paraplegic in similar pre-disability circumstances received the same benefit. In the translation between old age and disability insurance, something was lost. It would not have weakened the social security program to recognize differences in health conditions. Such recognition would not have transformed a social insurance program into a welfare program.

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[5] McElvain, Joseph E. Letter to Manager of District Office, Aug. 10, 1960. Washington National Records Center, Records of the Social Security Administration, Accession 67-270, Box 22.

[6] Parsons, Donald O. "Disability Insurance and Male Labor Force Participation: A Response to Haveman and Wolfe." Journal of Political Economy, vol. 92, June 1984, pp. 542–549.

In sum, the association between disability insurance and the social security system insured the growth of disability insurance between 1956 and 1972, and made it into America's largest and most important disability program. It was not the disability program, however, that planners might have chosen had they begun with the phenomenon of disability rather than with the existing social security program for the elderly.

In the third era of the program between 1972 and 1980, one of perceived uncontrollable growth, the association of disability insurance and social security continued to show positive and negative aspects. These years saw extraordinary rises in the level of benefits, first by legislative fiat and then by means of the cost of living adjustments. Between December 1969 and December 1975, average benefits increased 82 percent and benefits had the advantage of carrying an entitlement to medicare and, in those years, of being tax free. In 1979 the Senate Finance Committee announced that the average family disability benefit exceeded the pay from a minimum wage job by 20 percent. In part because of these benefit increases and in part because of a tangled web of other factors, the disability program grew precipitously during the seventies. Between 1970 and 1976 the number of workers on the rolls nearly doubled. Between 1970 and 1975 the disability incidence rate increased by nearly 10 percent a year.[7]

Because of the actuarial tradition established at the Social Security Administration by Robert Myers and his colleagues, social security had an early warning system to protect against financial trouble. Because disability was a current rather than a future risk, however, the rise in the disability rolls caught the planners largely unprepared. In old age insurance, one could lay in wait for a large population cohort to reach retirement age. In disability insurance, one did not have this luxury.

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[7] U.S. Congress. Senate. Committee on Finance. Issues Related to Social Security Act Disability Programs. Committee Print, 96th Congress, 1st Session, Washington, U.S. Government Printing Office, 1979. pp. 61, 68, 107; U.S. Congress. Senate. Special Committee on Aging. Developments in Aging: 1984: Volume 1. Senate Report No. 99–5, 99th Congress, 1st. Session. Washington, U.S. Government Printing Office. 1985. pp. 27–28. (Hereafter cited as Senate Aging Committee, Developments in Aging.)

As a current risk with large and unanticipated current payments, disability insurance also became a political risk. The association between disability insurance and social security, although responsible for tremendous growth in disability insurance, heightened its visibility. By the end of the seventies disability insurance became a metaphor in the popular press and elsewhere for an entitlement program that was out of control. In a popular book, journalist Theodore White cited disability insurance as a program in which actual expenditures far outdistanced predicted expenditures. Time Magazine used the program to make the same point, inspired perhaps by Secretary Joseph Califano's warning that the program "has drifted into crisis" and, with its complicated Federal-State structure, become a "caricature of bureaucratic complexity." [8]

Disability insurance, although a relative newcomer to social security, became the first part of the program to receive a stringent fiscal pruning from Congress. In 1980 Congress passed a piece of comprehensive disability legislation that place a cap on family benefits in disability insurance. Passage of this legislation marked the end of the consensus that had sustained the social security program for so many years. Wilbur Cohen, Arthur Flemming, Senator Claude Pepper and a number of other officials who had helped to create the program regarded social security as a compact between generations. In 1980, these gentlemen believed, Congress had violated the terms of the compact.

The 1980 legislation led to the fourth and final era of the program which continues to the present day. This period featured an attack on and a reassertion of the basic entitlement to disability benefits. Although the motivation for the passage of the 1980 law was primarily economic, the law also contained an administrative feature, designed to improve the performance of the States in maintaining the disability rolls. To accomplish this goal, the law mandated that the States review the status of all "non-permanently disabled" beneficiaries at least once very 3 years.

The rest of the story should be familiar to anyone who has followed recent events in social security. Spurred by reports from the Social Security Administration and the General Accounting Office that many ineligible people remained on the disability rolls and eager to save money in the 1981 budget, the Reagan administration decided to initiate the review of people on the rolls, even before the 1980 legislation required it to do so. The process began in March 1981. By the fall of 1983 the administration had reviewed 1.2 million disability beneficiaries. In 1983, for example, the States reviewed a record total of 544,000 cases and at the first level of consideration—subject, of course to appeal—terminated 58.6 percent or 273,000 cases. That in turn induced a record number of people to appeal their cases and ultimately to take them before an administrative law judge. The ALJ's, who did not consider themselves subject to the same rules and procedures as the States, reversed 61 percent of the cases that the Reagan administration had decided to review.[9]

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[8] Singer, James W. "It Isn't Easy to Cure the Ailments of the Disability Insurance Program." National Journal, May 6, 1978. p. 718; Califano, Joseph A., Jr. "Governing America: An Insider's Report From the White House and the Cabinet." New York: Simon and Schuster, 1981. pp. 384-386.

For the first time in the program's history, a furor erupted. Previous battles, even the one in 1980, had been relatively sedate, disagreements among the small number of people who made social security policy or debates among scholars. Beginning in 1982, horror stories appeared first in local newspapers, then in national newspapers, and finally on television. The horror stories told of people driven to desperate acts, even suicide, after being terminated from the disability rolls. In this manner, disability insurance moved from being a sidebar in Time Magazine to a feature story on the evening news.

With so much attention focused on the disability insurance program, the nature of the Congressional relationship to the program changed. The desire to temper the administration's zeal came from neither the Senate Committee on Finance nor the House Committee on Ways and Means. The Senate Special Committee on Aging and the Senate Committee on Governmental Affairs showed a new interest in disability insurance and took the lead in reforming it.[10]

In the end, the traditional committees in charge of social security policy acceded to a major reform of the program. Their decision reflected a realization that the disability program had literally come apart and that it might be more costly to do nothing than to pass a reform measure. The States were refusing to examine the cases of people on the rolls. The courts, hearing a record number of disability cases, were imposing their own interpretation of the law. Responding to these pressures, Congress passed a major new disability insurance law in May 1984 that, among other things, created a medical improvement standard. A person could be terminated only if substantial evidence demonstrated he had medically improved.[11]

The differences between the 1980 and 1984 laws were striking. Where the 1980 law stemmed from a concern over the costs of serving a rising caseload, the 1984 law reflected a concern with the individual rights of people already in the program. Stories in the popular press, which in the seventies emphasized how easily the disability rolls could be manipulated, now dwelled on the vulnerability of people receiving disability insurance. The stories preceding the 1980 law spoke of how the disabled took advantage of the rest of society and imposed a financial burden on the Federal budget. The stories preceding the 1984 law spoke of unfair treatment of the disabled and of how the administration's treatment of the disability insurance program put a large hole in the much discussed social safety net.

Where the 1980 law drew on the insights of economists, the 1984 law was the product of lawyers and expert legal opinion. The 1980 law tried to prevent the growth of the disability insurance program by reducing the financial incentives to go on the disability rolls. A strict adherence to this law produced great concern on the part of lawyers over two points: The protection of procedural safeguards in the disability determination process and the formal definition of disability payments as legal entitlements which the Reagan administration could not abridge because it wished to enforce tougher standards than had previously prevailed.

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[9] Senate Aging Committee, "Developments in Aging," pp. 30–31.

[10] Collins, Katharine P. and Anne Erfle. "Social Security Disability Benefits Reform Act of 1984: Legislative History and Summary of Provisions." Social Security Bulletin, vol. 48, April 1985. p. 30.

[11] Weaver, Carolyn L. "Thinking About Social Security Disability Policy in the 1980s and Beyond." Unpublished paper, April 1985. pp. 15–17.

It was as if there were an elasticity to the concept of disability. Stretched too tight, it snapped and became loose. Using the 1980 law, the Reagan administration tried to tighten the program and save money. Instead of saving money, the administration succeeded in producing administrative chaos and a law which forbade them from ever trying to tighten the program in that particular way again.

## C. THE LACK OF A DISABILITY POLICY

This elasticity came to dominate the debate over disability. Other, more fundamental issues became subsumed in the debate over the specific provisions of the disability insurance program. Because disability insurance so dominated the Nation's disability policy, the disability debate of the early eighties never led to a more general discussion of disability policy. Congress became preoccupied with redressing the wrongs that had been done to individual citizens within one program. Althought the number of Government officials and congressional committees interested in the problem increased, the issues in the policy debate actually decreased.

No mechanism existed to consider emerging issues in the field of disability. The Senate Special Committee on Aging saw the disability issue through the lens of the concerns of the elderly; the House Ways and Means Committee evaluated the issue in terms of its effects on the social security program. No committee in Congress, no bureau of the executive branch concerned itself with the way that disparate disability programs interacted with one another and produced a national disability policy.

At the same time, the Nation's investment in these programs was not insignificant. The best estimates put disability expenditures at $122 billion for persons between 18 and 64 years of age in 1982. This figure reflected a tremendous growth in disability expenditures that occurred after 1970. In 1970 the Nation spent $24,250,608 on disability. Even accounting for inflation, disability expenditures doubled between 1970 and 1982; between 1970 and 1975, the expenditures in actual dollars grew by a phenomenal 21.2 percent. In per capita terms, correcting for both inflation and population growth, disability expenditures went from 211 in 1970 to 348 in 1982.[12]

The level of disability expenditures may well have peaked; clearly, mere expense should not be the issue. More distressing is the fact that the country lacks control over the way in which the funds dedicated to disability are spent. In recent years, for example, income maintenance programs, have accounted for 55 cents of every dollar spent on disability. Medical care takes up another 44 cents, leaving only a penny for rehabilitation and other direct services. The political rhetoric of President Reagan and others emphasizes rehabilitation; the figures illustrate how rhetoric diverges from reality. Should the trends continue, the Nation will become even more dependent on income maintenance programs and medical care to form its response to disability. Furthermore, the trends indicate an unanticipated substitution of welfare payments for social insurance benefits in recent years.[13]

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[12] Monroe Berkowitz, An Overview.

The United States lacks the institutional means to anticipate trends in policy. Although analysts speak of disability policy, the Nation maintains not one but several disability policies, and these policies often work at cross purposes. To cite only the most obvious example, the United States enforces sections 504 of the Vocational Rehabilitation Act, with its guarantee of equal access to employment, and social security disability insurance with its entitlement to retirement at public expense. In other words, the United States provides tickets into and tickets out of the labor force, without much thought given to coordinating one type of ticket with another.

Disability is defined by public policy, yet the present set of programs contains not one but many definitions of disability. The variety of definitions underscores the fact that disability policy has no overarching objective or even coherence. Some programs equate disability with an inability to work; others define disability as the mere presence of an impairment such as blindness. In such a system, policy results from the unplanned interactions of programs that were created in different historical eras, that have different and often conflicting policy objectives, and that are administered by Congressional committees and by State, Federal, and local agencies that do not communicate with one another.

Meanwhile, the deadline imposed by the baby boom generation approaches with little action being taken. Instead of planning for the time in which the baby boom segment of the population faces the greatest risk of becoming disabled, the Nation continues to focus on the problems of the elderly. The relationship between policy for the elderly and disability policy does not receive the attention it demands. If the Nation raises the retirement age, for example, what effect will such an action have on disability insurance and on disability policy? The phenomenon of old age, although important, has a large intellectual and political apparatus behind it. Gerontologists study old age and Congress maintains an oversight structure, with echoing interest groups, that sees to the interests of the elderly. Nothing comparable has happened in the field of disability, even though the policy dilemmas are equally profound and the deadline for action equally pressing.

In a similar sense, disability has never generated an agenda for reform in the same way that welfare reform and health insurance have. During the seventies, the Nation developed a critical catalogue of its welfare programs. Never has disability become the center of a similar effort.

The lack of interest in disability may stem from the amorphousness of the concept. It resists precision. As used in policy discourse, it means at least three different things with the result that no single estimate exists of how many disabled or handicapped people there are in America. In the first place, disability refers to the damages that one person collects from another as a result of an insult or injury. In the second place, disability means the conditions that lie between ill health and unemployment. If a person leaves the labor force as a result of a physical or mental condition, he is neither sick nor unemployed: he is disabled. Since the disability insurance program uses this definition, it has become the most prominent. In the third place, disability means handicap, and disability refers to things that affect the handicap. This definition focuses on the stigma associated with the visible aspects of handicap and includes people who look or act disabled. People in wheelchairs come to mind; they may work, but people still regard them as handicapped.

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[13] *Ibid.*

These different conceptions of disability yield differing estimates of the disabled population and influence people's perceptions of the policy problems in the disability field. The highest estimates of the disabled population come from people who adopt the definition of disability as handicapped. Since these people see the primary problems of disability as relating to the prejudice that the handicapped encounter as a minority group in an able-bodied world, they tend to inflate the estimates.

Although they wish to show the handicapped as a minority group, they also want to portray the handicapped as a large minority. In this regard, the National Council on the Handicapped, a young government organization that is the closest thing the country has to an agency concerned with disability policy, defines a disabled person as "any person with a physical, developmental, mental, or emotional impairment which would substantially limit one or more major activities such as learning, communication, mobility, self and health care, socialization, employment, and recreation." Such a broad definition produces an estimate of 35 million disabled Americans. The number can be raised even higher. "We can state," says a paper from the National Institute of Handicapped Research, "that there are 100 million people or about 45 percent of the total U.S. population who are disabled or who have at least one family member with a disability." [14]

At the other end of the statistical spectrum come estimates based on the definition of disability as an inability to work for an extended period of time for health-related reasons. Demographer Larry Haber, perhaps the greatest expert in the field, estimates that 5.8 percent of the non-instructionalized population, ages 18–64, should be classified as disabled. For the year 1983, that means 8,353,000 people.[15]

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[14] National Institute of Handicapped Research. Unpublished paper. p. ii; National Council on the Handicapped. "National Policy for Persons with Disabilities." Washington, D.C., privately distributed, 1984. p. 9.

[15] Haber, Larry. "Trends and Demographic Studies on Programs for Disabled Persons." In Perlman, Leonard G. and Gary F. Austin eds. "Social Influences in Rehabilitation Planning: blueprint for the 21st Century." Alexandria, VA; the National Rehabilitation Association, 1985. pp. 27–40.

## D. DISABILITY POLICY PROBLEMS

The range in the estimates of the disabled population suggests the difficulty of solving problems of disability policy. At least three major problems suggest themselves. The first is the rising tide of litigation in disability problems. The second is the reliance on retirement as the solution of problems related to disability. The third concerns guaranteeing the civil rights of the handicapped.

### 1. LITIGATION

Because proof of a person's disability rests on a subjective interpretation of evidence, disability programs produce disputes that lead to litigation. Each of the major disability programs permits litigation as a means of resolving disputes over who is entitled to benefits. In workers' compensation, for example, cases often end in hearings before the State industrial commission or industrial accident board in which lawyers appear for both workers and employers. They argue over the extent of an injury or occupational illness and over the employer's responsibility for causing the injury or illness. In this way, a system created to act as a no-fault guarantee for injured workers has evolved into a litigious system of administrative law. Furthermore in recent years, some workers have bypassed the compensation system altogether and pursued their case through the tort law system. In this manner, claims related to exposure to asbestos have become tort actions against the manufacturers of asbestos products on the grounds of product liability. The concept of disability as damages remains very much alive.

Other programs have experienced similar reversions to litigation. The recent experience in the disability insurance program has led to an epidemic of litigation, with workers taking their cases first to administrative law judges and then to Federal courts. The 1984 law, with its medical improvement standard, does little to stop the epidemic. In the vocational rehabilitation program, Congress has recently funded a client assistance program that gives dissatisfied clients the right and the financial means to press their cases first through the agency's administrative apparatus and then through the courts. Creation of this program follows the initiation of similar programs in the fields of developmental disability and the education of the handicapped.

As a means of resolving disputes, litigation has its place; as a form of disability policy, it leads to inefficiencies and inequities. In the first place, it undermines the moral of public agencies to have the courts undercut their decisions. Furthermore, in the income maintenance programs, litigation places a burden on the applicant to demonstrate his or her incapacity rather than to pursue recovery aggressively. Because litigation places so many demands on lawyers, it consumes both time and money and in this manner leads to delays. The longer the delays, the more time an applicant needs to maintain his or her "disabled" behavior and the more important issues, such as the proper placement of a handicapped child in school, remain unresolved. The longer the delays, the greater the financial pressure on the applicant and the temptation to settle a case out of court. Litigation also leads to highly divergent results from case to case. Some people win a great deal of money, and others win nothing. Richer people have access to the more skilled lawyers and the more highly respected expert witnesses. In this way, the odds of getting Government benefits may shift in favor of the people in least need of the Government's help.

### 2. RETIREMENT AND ALTERNATIVES

The reliance on retirement as the basis for the Nation's disability policy, as in the social security disability insurance program, also leads to inefficiency. Under the terms of the present system, a handicapped person needs to be unable to engage in substantial gainful activity before he becomes entitled to Government benefits. Such a system almost guarantees that the handicapped will never be integrated with the rest of the Nation; such a system consigns the handicapped to a life outside of the mainstream.

Alternatives to retirement exist. Implementing them would require a bold rethinking of the Nation's disability policy. Centers for independent living, present in such diverse communities as Berkeley, California, Tulsa, Oklahoma, and Lansing, Michigan, make it possible for the handicapped to live and work in the community. These centers offer such services as a labor exchange between handicapped who wish to hire personal care attendants and people who wish to work as personal care attendants. Other services include a wheelchair repair service and advice on how to modify an apartment, home, or office so as to make it accessible to a wheelchair. Many independent living centers also allow handicapped people to receive counselling and other forms of advice from their handicapped peers. Such services facilitate the transition between a hospital and the community, between a life of retirement and a life of participation.

Judy Heumann, an important leader of the movement for handicapped rights, has spoken on how the availability of independent living services can change a person's life. Because she was handicapped, she experienced some concern about her move from New York to Berkeley. Her fears eased when she landed at the San Francisco airport and was met by a disabled friend who drove a van with a hydraulic lift. She stayed in a home with no architectural barriers to her wheelchair and benefited from the assistance of a personal care attendant. She began to live her life on her own terms: She went to sleep when she wanted; she took a shower when she wanted. For the first time, she told a House oversight committee during a 1978 hearing "my handicap did not completely control my life." Heumann believed that coming to Berkeley and its independent living center made her a more mature person, comparing the situation to "being a baby and learning how to grow up and learning how to take on responsibilities." [16]

As Edward Roberts, another important figure in the disability rights movement, has stated, the idea for independent living centers came from "our experience directly, our experience of trying to survive away from the institution, away from isolated experiences . . . we know these can be duplicated." Roberts and Heumann pointed to the case of Kathy Mortenson. Born with spina bifida, Kathy Mortenson received her education through special education programs. Scraping her way through a community college, she began to look for a job, aware of her limited prospects. Then she heard about the Independent Living Center in Berkeley and a "whole new world" opened to her. The Center staff told her about "her rights as a disabled person and the services she was entitled to from various agencies." Ultimately, the General Accounting Office offered Mortenson a job, and Kathy Mortenson discovered her true potential.[17]

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[16] U.S. Congress. House. Committee on Education and Labor. Subcommittee on Select Education. Oversight Hearings on the Rehabilitation Act of 1973. 95th Cong., 2d sess., Jan. 5, 1978. Washington, U.S. Govt. Print. Off., 1978. p. 77. (Hereafter cited as Subcommittee on Education, Oversight hearing.)

What policy does this country maintain toward independent living centers? The vocational rehabilitation program funds such centers on a modest basic through its title VII. Title XX of the Social Security Act provides money for some of the services offered at the center. The Nation's largest programs, such as disability insurance and medicare, do not provide the independent living centers with any help at all; in fact, they hinder them.

Consider the hypothetical example of a handicapped man who is out of work and in need of health insurance. When he turns to the Government for help, this man discovers the medicare and medicaid programs. To qualify for medicaid and medicare, however, he needs first to qualify for supplemental security income or disability insurance. Since these programs share a common definition of disability, the man needs to prove he is unable to engage in substantial gainful activity. Once the Government is satisfied that the man is unable to work, it grants him benefits and, in time, health insurance as well.

Since the man chafes under the rule that ties his health insurance to an inability to work, he decides to venture into the labor market and seeks the advice of staff members at an independent living center. The staff, in turn, convinces him that he can return to work if he can find and finance a personal care attendant. They put him in touch with a person seeking work as a personal care attendant. If the man has immediate success in his job search and gets a good job, he may have enough money to pay for the costs of his job search, his health insurance, and his personal care attendant. More likely he takes advantage of a trial work period in the disability insurance and supplemental security income programs during which he can work and still qualify for medicaid or medicare. Even so, he will still have to pay for his personal care attendant out of his own pocket, since neither medicaid or medicare provides him with much help. Medicare covers care in a skilled nursing facility on a limited basis, and it also pays for home health care. To qualify for home health care, however, a person must be confined to the home, be under the care of a physician and in need of skilled nursing care. In some States, medicaid makes it easier to get a personal care attendant but the situation differs greatly from State to State, and all medicaid recipients must be poor enough to qualify.

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[17] Subcommittee on Education, Oversight hearing, pp. 60, 130–132.

In such a situation, it makes sense to play by the rules and drop out of the labor force. The incentives in health care and retirement policy lead people to retirement rather than to participation in society. Ironically, it may cost more to fund retirement than to fund independence (although that point requires dispassionate investigation). The situation dooms the handicapped to inactivity, reinforcing popular stereotypes of their inability to participate in the mainstream of society, and illustrates the costs the Nation pays for subsuming disability policy under its policy for the sick and aged.

Although independent living centers do not represent a panacea for the problems of disability, they do constitute an alternative that is largely denied by present policy. Their limitations are obvious. They reflect the vagaries of available funding and the particular visions of charismatic leaders. As a consequence, they are not for everyone. They benefit the relatively young more than the relatively old; they help the middle class, who have education and real employment opportunities, more than the poor, who have fewer chances to get jobs that make independence worthwhile; they aid the mobility impaired in wheelchairs far more than the mentally retarded or others with mental disabilities. Some people, after all, may simply wish to retire after incurring a health problem that threatens to end a long career in a less glamorous job.

One such person appeared recently in the hearing room of a Baltimore administrative law judge. He did not suffer the stigma of someone in a wheelchair. He had no difficulty seeing, speaking, or hearing. He worked in the military and rose to the rank of sergeant. Married for over 20 years, he sat beside his wife during the hearing. At the age of 55 and with a history of ulcers, the man had a heart attack. He perceived his physical strength to be waning and his facilities to be slipping. He could no longer do the lawn work, and his wife worried about his ability to drive. After only a block, he became tired from walking. Once endowed with a good head for numbers and a good memory, he could no longer remember phone numbers and his memory in general became less reliable. His failings often caused him to lose his emotional stability. This tired, demoralized man wanted to retire; the disability insurance existed for him.[18]

The problem for public policy, therefore, consists of separating those who wish to retire from those whom the system forces to retire, often against their will. For the latter group, independent living centers constitute an important model on which policy could be based. Independent living, in turn, suggests a third problem in public policy toward disability: The protection of the civil rights of the handicapped.

### 3. CIVIL RIGHTS

If the Nation adds independence to retirement as a goal of disability policy, it will need to lessen the discrimination the handicapped face in employment and public accommodations.

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[18] Cullen, Judge James. Interview conducted during administrative law judge hearing. Baltimore, MD, Feb. 8, 1984.

For many years, such discrimination was woven into the very fabric of American society. In 1925, for example, a Detroit automobile manufacturer required all men with amputations to wear artificial arms, not because the arms would help them work better but because of the manufacturer's concern for the "working morale of the men." The presence of a handicap made people uncomfortable. The policy of hiding disability to accommodate an able-bodied world applied to education as well as the workplace. Public schools were not adapted to the handicapped. They contained "long stairs to climb and desks that cannot be accommodated to a particular physical disability. In fact, everything about the school is adjusted, and properly so, for the normal physical child." Because it was perceived that the schools could not and should not educate the handicapped, the handicapped received education in more "appropriate" settings, such as hospitals.[19]

Even today, the facts of discrimination and prejudice are undeniable. People react adversely to the sight of a blind person dancing or entering a shop unattended. Ex-mental patients suffer disadvantages in employment interviews similar to those of an ex-convict. Until quite recently, many States maintained laws that prohibited the marriage of epileptics.

Architectural and attitudinal barriers remain firmly in place. When Carolyn Earl attempted to make a reservation at the Harrison Hotel in Oakland, the clerk expressed concern about the hotel's liability in case of fire. The handicapped, in other words, were sources of liability. A paraplegic working in Baltimore accepted a special assignment in Washington. He decided to take the commuter train from Washington to Baltimore. In order to board and dismount from the train, he not only needed special assistance from the platform to the train, he was also forced to travel by a large, unwieldy, and unsightly freight elevator just to reach the platform of the Baltimore train station.[20]

To protect against such discriminatory behavior, Congress has passed section 504 of the Vocational Rehabilitation Act of 1973. This law forbids discrimination against an "otherwise qualified handicapped individual" in any program conducted by the United States Government. Those familiar with civil rights law will recognize section 504 as extending title VI of the Civil Rights Act of 1964 and title IX of the Education Amendments of 1972 to the handicapped.

Section 504 has produced its share of controversy because of the differences between discrimination against the handicapped and discrimination against other minorities. The classic example concerns blind bus drivers. The law does not force cities to hire the blind as bus drivers, even though they are "otherwise qualified." Another area of controversy applies to the concept of "reasonable accommodation" of the handicapped. To treat a handicapped person the same way as other people may, in fact, discriminate against the handicapped person. If welfare recipients are notified of their rights by telephone, other arrangements may need to be made for the deaf. These other arrangements hold the potential to be costly and that raises still more controversy. The director of New York's Metropolitan Transit Authority has said that equipping the city's subway system with elevators would impose $100 million worth of costs on the city, money that would otherwise go toward improving the safety and comfort of the subways.[21]

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[19] Sullivan, Oscar M. and Kenneth D. Snortum. "Disabled Persons: Their Education and Rehabilitation." New York, The Century Co., 1926, pp. 124, 105.

[20] "Michigan Woman Awarded Damages by Discriminating Hotel." Disability Rag, May 1985. p. 8.

As a further illustration of the difficulties of applying civil rights law to the handicapped, one might consider the differences between admitting James Meredith to the University of Mississippi and admitting someone in a wheelchair. Admitting James Meredith was a clear, coherent, and costless act, complicated only by the strife that accompanied social change in the South. Meredith required courage to attend classes, not ramps and wide toilet stalls with grab bars. After the initial bloody confrontation, integration may have saved the University money. For example, it cut the number of necessary restrooms in half. Admitting the handicapped student, by way of contrast, cost money in terms of special accommodations that would be necessary to the physical plant.

Civil rights law for the handicapped remains incomplete. Although title VI of the Civil Rights Law of 1964 has been applied to the handicapped, none of the other titles have. A general law prohibiting discrimination against the handicapped in employment or public accommodations has not been passed, its passage inhibited by the general political climate and by the sense that the problems of the handicapped are so different from the rest of the minority populations. In this regard, people point to the heterogeneity of the handicapped population; accommodating the person in a wheelchair does nothing to accommodate a deaf or blind person.

## E. POLICY RECOMMENDATIONS

These three policy problems—the rise in litigation, the reliance on retirement, and the incomplete nature of civil rights protection—lead to some suggestions for future disability policy.

The primary need is for a policy mechanism to oversee and coordinate disability policy. Mindful of the escalation of congressional committees and subcommittees, one hesitates to recommend the creation of a new committee. To suggest a new Government agency induces the same trepidation. As matters stand, however, the Nation lacks even rudimentary knowledge about disability and pays a high price for having this policy subsumed by programs conceived for other purposes and addressed to other audiences. Congress should explore, therefore, the creation of oversight committees on disability similar to the ones on aging. Perhaps the responsibilities of an existing committee can be broadened to take on this new responsibility.

The executive branch already contains the National Council on the Handicapped, a very small independent agency, as well as the National Institute on Handicapped Research. These agencies need to be expanded and given the research capability to investigate how disability programs interact with one another. The National Institute on Handicapped Research might benefit from the prestige of becoming an institute in the National Institutes of Health. Both agencies, the National Council and the National Institute, need to consider how disability programs function as a system and what incentives they present for the people who come into contact with them. They need to monitor trends such as the rise in the level of litigation and the growth of income maintenance programs.

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[21] Goldman, Ari L. "MTA Asks Exception From Wheelchair Law." The New York Times, June 9, 1983.

Since bureaucratic sleight of hand will not solve difficult policy problems, changes in existing programs require consideration. One must begin with disability insurance, the most important of the disability programs. Perhaps the time has come to change the program's benefit structure. For the pre-old, the system should continue as before. For younger applicants, those below 50 as an example, perhaps newly constituted "independence initiatives" are in order. These independence initiatives might include a lifetime entitlement to a reformed medicare program, one that permits payments for personal care attendants. Such benefits might appropriately be paid even if the person exceeded the level of substantial gainful activity. Working, in other words, would not be penalized, and independence would be encouraged.

One way to institute the new system would be to give people younger than 50 with demonstrated impairments a choice: Regular, or perhaps even reduced, disability benefits which would be re-examined every 3 years or a lifetime entitlement to independence initiatives, regardless of earned income, and regular benefits at retirement age.

If this change in disability insurance were to be enacted, it would require changes in other programs. The Nation might consider taking some of the money it spends on the vocational rehabilitation program and devoting more of it to independent living centers. One could even envision an independent living block grant from the Federal Government to the localities in order to design and run independent living centers. The newly augmented medicare program might pay some of the costs of those services.

Any change in disability insurance should be undertaken only with extreme caution. Tampering with a relatively generous and beneficial program, if done only to save money in the disability insurance trust fund, may produce more harm than good. Whatever happens to disability insurance, however, the Nation needs to consider reforming supplemental security income. The disability definition that disability insurance and supplemental security income share should be decoupled. SSI should have a more lenient definition of disability than disability insurance. Part of the problem in the recent crisis in the disability insurance program concerned the fact that a person cut-off from the disability insurance rolls was also cut-off from the supplemental security income programs. To prevent this serious deterioration of the social safety net, States should be allowed at their discretion to implement more liberal and lenient definitions of disability than are contained in the present program, with no loss of federally paid benefits to the people in those States. Although limits will need to be set, the disability part of the SSI program needs to be strengthened.

To complete these policy suggestions and make them more effective, the Nation needs to experiment with expanded civil rights guarantees for the handicapped. If the Nation expects to encourage the independence of the handicapped, it needs to lower the barriers of architecture and of prejudice. No ideal policy mechanisms exist to accomplish this result, yet the Nation needs to try. Eliminating the inconsistencies from our social welfare laws may have the beneficial effect of making it easier to enforce civil rights laws for the handicapped.

Wilbur Cohen, a giant in the social welfare field, recently noted that disability insurance was the most difficult part of the social security system to keep up to date. The 50th anniversary of the founding of the program marks a good time to begin the effort and to create the institutional means to sustain the effort. At the same time that we celebrate the accomplishments of disability insurance and the rest of social security, we need to reflect on the maturity of our social welfare system. Fifty years from the era of Arthur Altmeyer, Franklin Roosevelt, Edwin Witte, and I.S. Falk, we need to expand our horizons from creating good programs to maintaining efficient and humane systems of programs. The task ahead is to improve the American disability system, in which social security disability insurance plays so prominent a part.

## Chapter 4

# SOCIAL SECURITY AND LABOR MARKET POLICY

(Prepared by Ben Fischer, Director, Center for Labor Studies, School of Urban and Public Affairs, Carnegie-Mellon University; and Edward Montgomery, Assistant Professor of Economics, School of Urban and Public Affairs, Carnegie-Mellon University)

## A. INTRODUCTION

On the 50th anniversary of the inception of the social security system it is appropriate to assess the impact of this program on all aspects of American life. In this essay we will examine the impact of the social security system on the labor market. Does the social security system aid the economy? Does it serve the appropriate purpose in the labor market? These are some of the issues we will address on this anniversary of the signing of the Social Security Act. Clearly, the social security program has had and will continue to have a significant impact on the cost of labor and the willingness or need for elder citizens to work. We will focus on the myriad of incentives that are currently associated with the many programs under the Old Age Survivors and Disability Insurance (OASDI) rubric and how these incentives might be altered in the future as labor market needs and trends change.[1] We are not addressing the adequacy or inadequacy of the level of benefits or the financing system. We are dealing with the system's impact on the economic environment in general and the labor market in particular.

One of the initial objectives of the social security system was to allow older workers to be able to retire with a decent standard of living when they either desired to do so or were forced to retire because of economic or health considerations. In assessing the OASI system, it is important to see how well the system has achieved this initial goal. The evidence suggests that in this regard OASI has been an unmitigated success. One simply has to examine the data on the labor force participation rates of older workers to see that there has been a continuous decline in the fraction of older workers who have continued to work. The labor force participation rate for males over 65 has declined steadily from over 67 percent in 1940 to under 18 percent in 1984 while the participation rate for females is currently under 8 percent. Clearly, the pressures on older workers to remain in the labor force seems to have abated over time thus allowing more of them to withdraw from the labor force. Since the participation rates for young men and women (i.e. those under 45) have by and large been stable or increasing over this period, it would seem likely that OASI played a major role in facilitating this transition.

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[1] We have chosen not to discuss in this paper the impact of the Disability Insurance provisions of OASDI on labor supply. This is not, however, to imply that this program has not had a significant impact on the labor force participation decisions of older workers. In fact, one study has estimated that almost 25 percent of the decline in labor force participation of older males is due to increases in Disability Insurance benefits. See Jonathan Leonard. "The Social Security Disability Program and Labor Force Participation." National Bureau of Economic Research. Working Paper No. 392, 1979.

Perhaps equally as striking as the trend toward less labor force participation among older workers is the increased tendency for workers to retire before the age of 65. The labor force participation rates for workers 55–64 have also shown a marked decline over the postwar period falling from over 90 percent in 1940 to under 70 percent in 1983. Further, the fraction of workers that have been retiring before the age of 65 has been steadily rising in the postwar period. In fact, most workers now start receiving social security benefits before the age of 65. This tendency toward early retirement is due to multitude of factors such as the increased prevalence of private pensions and the rise in the level of real wages for the average worker in the postwar period. Both of these factors will tend to increase the desire to consume more leisure and hence lead to earlier retirement. Nonetheless, there is reason to believe that the increasingly generous level of social security benefits and entitlement eligibility rules were also instrumental in furthering this trend.

The ability or willingness of workers to retire at earlier ages is tied to the level of their post-retirement income. Since social security income accounts for about 40 percent of all income received by the elderly or 79 percent of the income received by elderly individuals living below the poverty line, changes in the level of benefits have a pronounced effect on their economic status. As a group the elderly are slightly more likely to live in poverty than is someone from the population as a whole. Currently about 15 percent of the people over 65 have incomes that place them below the poverty line while about 14 percent of the general population lives in poverty. These figures do not tell the full story, however, because when the value of in-kind benefits such as health care are included in the income of the elderly they actually have a lower poverty rate than the general population (4.5 percent versus 6.7 percent in 1979). Further, on a per capita basis the average income of the elderly is greater than that of the general population. In fact, a recent study found that after adjusting for differences in taxes, durables, household size and other noncash transfers available to the elderly, they were on average at least as well off as the general population.[2] This is not to suggest that there are not a significant number of older Americans that are in need but only to point out that their position no longer appears to be worse than that of the general population. In fact, the reduction in the percentage of the elderly population that is living in poverty over the last 40 years has been greater than that for the general population.[3]

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[2] See Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig. "Implications of the Relative Economic Status of the Elderly for Transfer Policy." Paper prepared for the Brookings Institution Conference on Retirement and Aging, 1982.

[3] Since 1959 the fraction of the elderly population living in poverty has declined by one and a half times as much as the fraction of the general population living in poverty.

This improvement is due in no small part to the increasing level of social security benefits. This can clearly be seen by the fact that the ratio of average social security benefits to the poverty line level of income for a couple has risen dramatically from .496 in 1959 to .842 in 1981. The level of benefits in real or constant dollars has also increased so that in 1982 the real value of the average monthly social security benefit for a retiree was 170 percent greater than it was in 1960.[4] The cost of these rising benefits has been reflected in a steadily increasing social security tax burden. The total tax burden associated with social security has increased over time in part because the fraction of the labor force that is covered by the program has increased steadily so now almost all of the work force is under the OASDI umbrella. Further, the OASDHI tax rates on both employers and employees have risen by over 130 percent since 1960 while the maximum taxable income has risen by almost 500 percent.[5] Thus, the impact of the social security system on the labor market and the economy as measured by either the tax rates needed to finance it or the level of benefits paid to retirees has been increasing steadily over the postwar period.

The evidence would seem to suggest that the social security system has achieved a certain measure of success in reaching its initial goals of allowing workers to retire with a decent standard of living. This has been achieved through steadily increasing benefits that have been financed by higher payroll tax rates. These benefits and taxes are both likely to have had a major impact on the labor market and workers' retirement decisions. We would like to turn now to a brief discussion of some of the changes in the labor market behavior that may have resulted either intentionally or unintentionally from the way the OASI system is currently designed.

## B. LABOR MARKET EFFECTS

Before one can intelligently discuss what should be the role of the OASI system in the labor market, it is useful to review what researchers think has been its current role. There are a large number of often contradictory studies that have examined the relationship between the level of real social security benefits and labor force behavior of older workers. As a result, it is uncertain how much of the decline in labor force participation rates of those over 65 can be accounted for by the increase in social security benefits. Nonetheless, the bulk of these studies do find that increases in the level of real social security benefits reduce the labor force participation rates of older workers. Increases in benefits may also lead to a reduction in hours worked by those who stay in the labor force as more workers choose to work part-time. These results are not particularly surprising since one might expect that the decision to retire or work would be a function of the level of income that one can receive if retired.

As discussed earlier, there has been a decrease in the labor force participation rates for both those over 65 and for those between 55 and 64. This tendency toward early retirement has grown over time so that now between 65 and 70 percent of all workers actually start collecting social security before the age of 65. The social security system enables workers who are over the age of 62 to retire with about 80 percent of the benefits they would have received at age 65. The actual reduction in benefits is about 8 percent a year, which is approximately the adjustment needed to keep the actuarial value of social security benefits over the retirement years unchanged. It has been noted, however, that even though the reduction in benefits is such as to be neutral with respect to early retirement, the fact that earnings accrued between 62 and 65 increase post-retirement benefits means that the current system actually provides a slight disincentive to early retirement. That is, since continued work increases the present value of social security benefits by more than the value of the increased payroll taxes, OASI provides workers with an incentive to keep working until age 65.

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[4] Real benefits were also over 160 percent higher for a retiree and spouse.

[5] In real terms, the maximum taxable income has risen by about 90 percent.

The presence of early retirement benefits from OASI may still play a role in explaining the trend toward early retirement, however, because some studies have found that workers may not be sufficiently aware of all the rules governing the recalculation of their benefits when they work past 62. As a result, this extra adjustment in the level of pension benefits may be discounted so workers feel that there is little to gain from continued employment. Nonetheless, it seem likely that the spread of private pensions or the general increase in real incomes of workers over time are really the major reasons for the rise in early retirements. In fact, given the evidence that suggests that many private pension plans provide substantial incentives to retire at 62 or earlier, it should not be surprising that the spread of private pensions is at the heart of the increase in the incidences of early retirement.[6]

Whether or not the actuarial adjustment of social security benefits is neutral for the average worker who retires early, there can be little doubt that the earnings test on OASI benefits provides a disincentive to work. Currently, every dollar of income earned above the cap results in a 50 cent reduction of social security benefits.[7] This 50 percent implicit tax rate on earnings above the cap would seem to provide a substantial disincentive to work. For a median wage earner, the combined effect of the reduction in benefits when earnings exceed the cap, social security taxes, and regular income taxes on earnings means that they could be facing marginal tax rates in excess of 70 percent. Clearly, this represents a substantial disincentive to continued employment. Not surprisingly then, these high marginal tax rates have been found to lead to a reduction in the amount of work done by those over 65.[8] It should also be noted that since benefits increase only slightly for each year past 65 that they are not claimed, these workers face further work disincentives. Since benefits rise by only 3 percent per year for each year after 65 that they are not collected, the actuarial value of benefits actually declines for those workers who decide to keep working after 65. Despite the fact that the impact of the failure to actuarially adjust benefits is somewhat ambiguous, the overall evidence suggests that the current OASI benefit system has adversely affected the work incentives of elder workers.

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[6] One study of major private pensions found that the actuarial value of benefits declined at a rate of 18 percent a year after age 60 in some large pension plans. They found in general that private pension benefits tend to rise to early retirement age and then either level off or fall. See Olivia Mitchell and Gary Fields. "The Economics of Retirement Behavior." Journal of Labor Economics, vol. 2, No. 1, January 1984. pp. 84-105.

[7] The cap in 1985 was $5,400 for those age 62-64 and $7,320 for those age 65-70.

[8] It is possible that many of those who appear to be reducing their work effort are simply working off the books in the underground economy. Since high marginal tax rates are often cited as one of the primary causes of rising unreported economic activity, it would not be surprising if the elderly were increasingly working off the books in response to the earnings test and the applicable tax burdens.

As noted earlier, the exact magnitude of the effect of social security on the supply of labor is somewhat difficult to determine. Further, even if the size of this effect is substantial, it need not follow that that is undesirable. Society may prefer to sacrifice some output or growth in order to allow older citizens to retire. Clearly, any policy analysis or revisions of the social security system must consider both equity and efficiency aspects of the social security system. But just as clearly, it is wise to review and reassess the role of the social security system as society and its needs change. What once was a prudent or desirable manpower and social policy will not necessarily always remain so. Given the radical changes in our technology and the reduced birth rate that we are currently experiencing, it would seem prudent to look again at whether our current OASDI structure should not be revised.

## C. A REEVALUATION

The initial intention of the social security system was that it serve primarily as an income maintenance device. The object was to insure that elderly citizens had at least some minimum level of income when they were too old to want to continue working. The level of benefits were set so as to provide this subsistence level of income but were not sufficiently generous to replace either private savings or pensions as the primary source of income. A government program was needed because it was felt that workers could not adequately forecast the level of saving needed to finance their retirement. Further capital market imperfections limited the ability of workers to invest in assets that would insure a given real income in their retirement years.

It can be argued that following World War II the thinking on the role and usefulness of OASI was reevaluated. It was at this time that changes in the levels of benefits and various provisions within the law enabled policymakers to use it as an instrument of labor market policy. The return of the war veterans sparked some concern that the economy might be unable to provide employment for expanding numbers of new entrants in the labor market. This concern and the resultant labor market policy was based on the notion that the economy somehow provides a fixed number of jobs. Consequently, if older workers have these jobs, younger ones are shut out. Although we question whether this theory of the labor market was or is valid, there can be little doubt that it was and still is widely held. In any case, the result was that policymakers went scurrying for a whole host of job-creating devices, one of which was altering social security provisions.

Encouraging retirement in general, and early retirement in particular, was viewed as offering the best of all worlds to the policymaker because he could simultaneously achieve two objectives. On one hand, he could open up more jobs for younger workers and on the other, he could allow older workers not to have to toil all of their lives. This objective had widespread support from organized labor groups because it allowed them to take care of their senior workers while at the same time creating openings for new membership. Management also stood to benefit somewhat from a system that would allow them to retire older workers without suffering the onus of having kicked them out into the street. For some firms this system might actually result in a reduction in costs as younger workers are often cheaper than older ones. This is especially true for a firm's white-collar force. The replacement of older blue-collar workers with younger, more vigorous workers, was also often seen as having benefits in terms of increased productivity. The fact that many of the initial private pensions originally set (and some still do) their benefits to make up the difference between social security and some target amount meant that increases in social security benefits could also actually reduce employer pension costs. Thus, there was widespread support from organized labor and some corporations for these initial changes in social security. To implement this revised system, however, policymakers had to provide sufficient incentives or benefits so that older workers would indeed feel that retirement was a feasible option. Not surprisingly, benefits started to rise above the subsistence level that they had initially been set at. In addition, workers were now allowed to retire starting at the age of 62 rather than having to wait until 65.

Concerns about the financial health of the social security system, however, prevented the Government from offering too large an incentive to retire. Further, concerns about equity among retirees meant that early retirement benefits had to be less than regular retirement benefits. To prevent early retirees from receiving benefits that are greater than those received by workers who retired at age 65, Congress changed the law so that those who retired early get reduced benefits. The amount of reduction was set so that the expected total lifetime benefits would be no greater for early retirees than for those who waited until age 65. By trying to insure that the level of benefits were actuarially adjusted so that the expected lifetime value of the pension benefits from early and regular retirement are the same, the Government was adopting a policy of neither strongly encouraging nor discouraging early retirement.[9] One can argue, however, that this was not really a "neutral" policy relative to the previous status quo in which early retirement was punished by a complete loss of benefits. Clearly, relative to that world, workers could now retire and have more income than before and hence the Government had put into effect a system that now provides extra incentives for early labor force withdrawal.

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[9] As pointed out earlier, this adjustment does not quite make the expected value of the pension benefits from early and regular retirement the same. The difference arises from the fact that earnings between 62 and 65 are used to adjust the base on which retirement benefits are based so that in fact workers usually are slightly better off if they remain in the labor force.

The tendency to encourage retirement, whether early or at age 65, can be seen most vividly by examining the treatment of pension benefits for those workers who keep working after age 65. For those workers, the level of OASI benefits increases by considerably less than the actuarially fair amount. Thus, the expected value of benefits for those workers who remained in the work force is less than if they had retired earlier. The fact that benefits rise by only about 3 percent per year for each year after 65 that they are not claimed means that continued employment ends up reducing the worker's lifetime social security income. This is not to say that he might not still be better off to keep working but only that the net gain from continued employment is less under this policy. Since continued employment improves the financial health of the system by deferring benefit payments and generating additional tax revenues, there can be little doubt that the objective of this policy was to encourage retirement and not to encourage continued work.

The question that now arises is whether this objective or policy is still desirable. Should OASI encourage employment, discourage it or be neutral? What incentive structures should be used to comply with society's current or emerging needs? There is reason to question both the underlying premise upon which social security's role as a tool of labor market policy was based and whether that policy is the correct one for the future. The purpose of this essay is not to engage in a theoretical discussion of labor economics, but rather to concentrate on why social security's role in future manpower policy may need to be altered.

The basic rationale for questioning whether the current policy is the correct one for the future and advocating a new labor market strategy is based on the simple fact that changing demographic patterns indicate possible spot labor shortages and even some overall manpower shortages. The fact is that we have experienced a drop in the rate of growth of our population, which combined with increased life expectancy, means that, given current retirement trends, there will be fewer and fewer workers left in the labor market to support a growing elderly population. Indeed, it is projected that the number of active workers per retiree will drop by a third in the next 50 years and that the labor force participation rate for those over 65 will continue to drop so that by 1995 only about 13 percent of the males and 7 percent of the females will be in the labor force.[10] Because of these changing demographic patterns, we argue that social security should be neutral rather than actively striving to discourage continued work.

The fact that workers live longer, healthier lives means that some of the initial justification for wanting to encourage retirement is ameliorated. With workers no longer facing the degree of health limitations that previously prevailed, the need to provide a mechanism that encourages them to retire early is no longer as strong. Further, work has become, and is likely to continue becoming, less arduous in terms germane to the characteristics of aging. The replacement of physical effort with machine effort makes jobs less onerous to many older citizens, as does the tendency for technology to require not only less physical effort but also types of attention that are intermittent (the machine proceeds and only requires close attention at intervals). The importance of these changing working conditions and their potential impact on workers health and hence retirement decisions can not be underestimated. Some research has indicated that health considerations are the single biggest factor in the retirement decision. Consequently, the continued improvement in health and working conditions means that both the ability and the willingness to work is likely to steadily increase over time. This fact was recognized by Congress in the debate over the 1978 Age Discrimination Act that raised the age of mandatory retirement from 65 to 70. Much of the testimony and discussion surrounding this revision in the retirement laws highlighted the fact that older workers want to and are capable of continued work after the age of 65. Passage of this law would seem to imply that society or Congress accepted the notion that it was undesirable or inappropriate to have legal strictures that forced workers to retire prematurely.

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[10] Currently, there are three workers per retiree but the Social Security Administration projects that there will only be two workers per retiree in the year 2035.

The question then arises as to whether it is appropriate or desirable to provide economic incentives which are designed to discourage continued work. We suggest that while the benefits should be fully adequate for a proper standard of living, social security laws should be altered in such a way as to make them more "neutral" with regards to labor force participation. The level of health care and the impact of preventive health programs are making life not only longer but healthier. As a result, older citizens may be less likely to want or need as many years of retirement. With increasing life expectancy, a policy that continues to encourage early retirement will simply add to the transfer payment burden of the working population. Unless people continue to work, inevitably the level of benefits will have to be reduced, the entitlement age increased, or taxes will have to continue to mount. Of these options, we believe that a continued work option is the most desirable.

There are a number of specific changes in the social security laws that we believe could serve the purpose of encouraging work among elder citizens. First, the presence of the earnings test is incompatible with any attempt to design a neutral retirement policy. This test penalizes workers who want to remain in the labor force. There is no compelling reason to discriminate against workers over the age of 65 but under 70 by imposing an additional implicit tax on their labor. It is unclear what manpower strategy is served by discouraging work between age 65 and 70 but not for those who reach 70. If anything, a stronger argument can be made to encourage work among younger workers (65–70) rather than older ones. Removing this penalty would be a step toward providing those over 65 with the same incentive toward continuing to work as those under 65. The result of this new policy would be that workers who want and are able to work will continue to do so in greater numbers than is currently the case.

There are a number of benefits from removing the earnings test, not least of which would be expanded labor supply and hence GNP. In addition, an increase in labor force activity will also generate increased social security and income tax revenues which may partially or totally offset any increased cost of benefits. The increased revenues will result from both an increase in overall hours worked and an increase in reported work. That is, with a lower implicit tax on reported income, older workers will have less incentive to resort to work in the underground economy. Although it is difficult to estimate the increase in reported activity that may result from removing the earnings test, there are numerous studies that indicate that much of the growth in the underground economy is a direct result of high tax rates. Thus, the notion that this implicit tax is necessary for revenue reasons may not be all that compelling since the net increases in revenues from increased reported activity may exceed the loss of public revenues.

Currently, private pensions are usually paid without regard to outside income or whether the person works or not, as long as it is work outside of the firm that is paying the pension. If public pensions also represent an "earned" entitlement, then there is no reason to restrict a worker's ability to collect his pension. By removing the earnings test we would be taking a step toward making social security more like an annuity that has been earned and less like a transfer program. Under such a scheme, social security taxes would represent just another form of household saving. If viewed this way, then it follows that workers should be permitted to pick up their benefits at age 65. If a worker wants them earlier, he should get an actuarially reduced amount just as he should get an increased one if he defers collecting benefits. If benefits are to also be actuarially fair to those who work past 65, then a second adjustment in the social security laws is needed. Benefits for those who retire after the age of 65 must be increased so that workers also get an actuarially fair adjustment to their benefits for each year retirement is deferred. This would again have the effect of increasing workers' willingness to work after age 65 since they will no longer suffer a penalty from the failure of the Government to fully adjust the value of their pension benefits.

The need to implement this second recommendation was recognized by Congress in 1983 when they revised the actuarial adjustment for those who defer collecting benefits past age 65. Prior to 1983, benefits were adjusted by 1 percent per year for each year after 65 that retirement is deferred rather than the current 3 percent per year. However, under the current legislation, benefits continue to be adjusted by less than the actuarially fair amount and this will continue to be the case for the next 25 years.[11] Although the rules are moving in the right direction, consideration should be given to accelerating this process so that the penalty for continued work can be eliminated much sooner. If we want to actively encourage continued employment, we could make the adjustment more than actuarially fair so that workers would gain a pension with a greater expected value the longer retirement is deferred. In the event of acute labor shortages it may be desirable to explore this option further.

These proposals will have some benefits in terms of increasing labor market activity both in regard to the number of workers in the labor force and the number of hours they work. Perhaps equally important, they will be a step toward making social security resemble an earned annuity rather than a transfer payment scheme. We believe that it is important to separate out the welfare or income maintenance component of social security from the pension aspect. That there exists a substantial welfare component to social security can be seen by the fact that the replacement rate for benefits varies inversely with income.[12] For instance in 1982, the replacement rate varied from about 54 percent for a worker making the minimum wage to about 22 percent for someone earning the maximum taxable wage. As seen in chart 1, the 90/32/15 formula that was set in the original Social Security Act and is used in calculating a workers Primary Insurance Amount (PIA) or benefits, means that this welfare or income transfer aspect is deeply imbedded in the current system.

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[11] These adjustments are scheduled to occur gradually over the period 1990–2009. Ultimately benefits will rise by 8 percent per year for each year retirement is deferred.

It seems to us that the fundamental purpose of OASI was to insure that workers did not get caught in the position of having inadequate savings for their old age and not to redistribute income. The policy discussion over level of taxes or benefits needed to finance retirement for the average worker should not be confused with the discussion about how to fight poverty amongst the elderly. Fighting poverty is a worthwhile social objective but there is reason to question whether poverty among the old should be treated differently than poverty among the young. By moving this aspect of social security under the rubric of income maintenance, we can then have a more rational discussion of the levels of OASI taxes and benefits that are needed to provide saving for old age without confusing this issue with the level of benefits and taxes that are desired to combat poverty. The income transfer aspects of social security should be financed from general revenues just as other transfer programs are and not through the OASI fund. If pensions are to represent earned entitlements, then the level of benefits must match the level of contributions. If because of equity considerations society feels that this will leave some retirees with inadequate funds, then just as these considerations have led us to finance AFDC and other welfare programs from general tax revenues, they should lead us to fight poverty amongst the elderly with funds from the same source.

By separating or eliminating the income redistribution aspect of social security, it should also be possible to substantially reduce payroll taxes. Since there is evidence to suggest that both the employer and the employee parts of this tax are really borne by labor, the current payroll tax represents a regressive tax scheme that increases the cost and decreases the use of labor. It serves to increase the already strong incentives to substitute capital for workers. Consequently, reducing the payroll tax should increase firms' willingness to hire workers and lead to increased employment. There are no compelling equity or efficiency arguments why the transfer aspect of social security should be financed by a payroll tax and strong arguments why they should not be. Thus, reducing this tax, and confining its use to financing only those benefits that are a surrogate for private pensions, would remove a distortion that is artificially increasing the cost of labor and leading to reduced employment.[13]

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[12] The replacement rate is the ratio of benefits to average earnings.

Making the social security system more like a private annuity would also provide a number of additional benefits to the economy. To the degree that having a pay-as-you-go social security system has reduced private saving in the economy, an annuity system could eliminate this effect. That is, there would now exist a stock of saving to offset any reduction in household saving that may occur because of the existence of OASI.[14] In addition, by having benefits match contributions, workers would have to be able to calculate the value of their retirement annuity which would facilitate financial planning on the part of households who now may have little idea of what level of retirement benefits they can expect. This would remove much of the uncertainty amongst the young, many of whom feel that social security will not be there when they retire. It may also reduce some of the intergenerational hostility that will continue to mount under the current scheme as the burden on the working population mounts.

These changes in the OASI system will tend to encourage continued work on the part of older workers. If these policies are to be successful, however, it is important that unions and management not revise private pension schemes in such a way as to counteract their effect on labor supply. Private pensions should not be used as the primary means to adjust employment in shrinking or cyclically depressed industries nor should they be used to create jobs for younger workers. Early retirement schemes are a placebo and not a cure for structural labor market problems. Ultimately, the cost of these plans will only serve to increase the pressures on these depressed industries. Retraining and reeducating workers so that they can be employed in new fields is a far more productive long-run solution to the dislocated worker problem.

A more speculative purpose for social security and private pensions might be to use them to facilitate new careers or self-employment. The range of careers that the elderly might feel free to choose from could be made considerably more diverse by the presence of pension income. Many beneficiaries will be able to do things that pay less because they have an assured source of income. The expansion of demand for services, coming both from corporations and individuals, points toward continuing opportunity to work in nonmanufacturing. Some of these services may require considerable skill but offer either uncertain or limited compensation. The development of new service industries will require that we have more entrepreneurs who are willing and able to take the kinds of risks needed to start or help develop new businesses. The problem of how to find workers who are willing to engage in these types of activities, a problem that is becoming increasingly pressing in our service-oriented economy, can be resolved in part by the availability of older workers who have a stream of public, and even private, retirement income. The potential willingness of the elderly to engage in these types of activities is evidenced by the fact that the fraction of workers who are self-employed rises steadily and dramatically between age 60 and 69. Thus, older workers may be an ideal source of workers for these developing industries. Further, in the event of shortages of workers in certain occupations or industries, supplements to social security benefits could be given to workers who change to these fields. Clearly, care must be taken that these supplements do not lead to older workers simply displacing younger workers, but when this substitution is unlikely it is possible that OASI could play a more active role in reallocating labor.

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[13] Since the issue of how best to finance social security is somewhat removed from our topic, we feel it its appropriate to have a detailed discussion of how best to alter the financing of OASDI. We do feel, however, that given the distortions associated with a payroll tax, consideration should be given to the use of a value-added tax to finance OASDI. Besides not altering the relative prices of labor and capital, such a tax could have the benefit of passing some of the burden for social security onto foreign produced goods. Consequently, the burden of OASDI would no longer place domestic producers at such a competitive disadvantage relative to improved goods. Such tax schemes are already widely used in Europe to finance their social insurance programs.

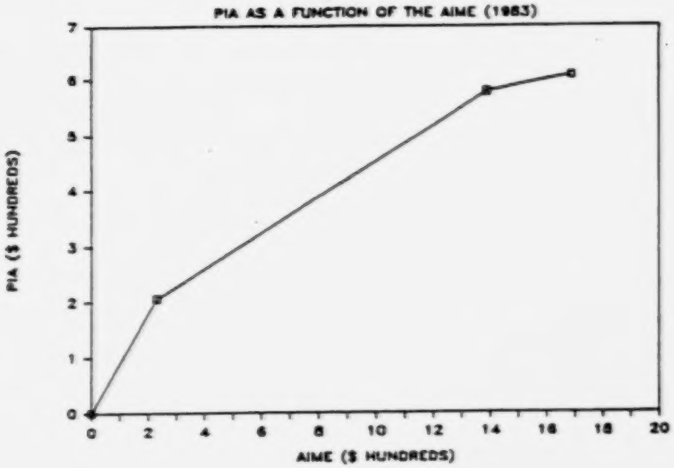
[14] It should of course be noted that the evidence on whether social security reduces private saving is far from conclusive.

## D. CONCLUSION

This paper has discussed what role we feel social security should play in the labor market. Given the changing demographic picture, social security should no longer discourage workers from remaining in the labor force. It should continue to be a potent counter-cyclical device and provide a basic standard of living to those who wish to cease working. Although there are numerous ways for social security to encourage work, such as reducing benefits or deferring the retirement age, we prefer those strategies that promote work by making OASI more closely resemble a private pension scheme. It should be emphasized that we have not advocated that the Government adopt policies that would penalize workers who do choose retirement for reasons of their own. Although the need for increased labor force participation among the elderly is likely to grow, we believe that excessive tampering with the retirement option involves an inappropriate interference by Government with a free choice earned by the participants. Individuals should be free to choose how to spend their earnings, whether it be in the form of more goods, higher bequests or more leisure through retirement. We also believe that it is essential that the income redistribution and the pension aspects of social security be separated.

Our conclusion, therefore, is that the social security system should be revised to encourage continued work as a central feature but not at the expense of failing to provide free choice. The actuarial benefit adjustments that permit age 62 retirement are fair and should be maintained and extended to those above age 65, while the existing earnings test should be removed. The result would be a more realistic relationship between OASI, manpower needs and the changing characteristics of the economy and the labor market. The Social Security Amendments of 1983 (other than the planned increase of the retirement age) were a step in the right direction but unless further and more fundamental steps are taken, we will be faced with continued calls for reductions in benefits as the only cure for the social security "crisis".

CHART I



Explanation: In 1983, benefits were derived by multiplying the AIME (average indexed monthly earnings) by .90 for the first $230 of monthly earnings, by .32 for the next $1388 and by .15 for any additional amounts.

# Chapter 5

# SOCIAL SECURITY AND THE CHANGING ROLE OF WOMEN

(Prepared by Gail Buchwalter King, Ph.D, Director of Urban Ministry for University and City Ministries)

## A. INTRODUCTION

In 1979 the Advisory Council on Social Security noted that: "The Social Security system touches on some of the most basic institutions and traditions of American life—marriage, the family care of dependents and survivors—and the effect of any major changes in this system must be carefully considered." [1] Social insurance, in this view, deals with the major risks—unemployment, premature death, disability and old age—that average Americans are likely to face in the course of their lives. But what happens when the desires and demands of groups within the population do not neatly conform to consistent work patterns or traditional family lifestyles? Can a single set of rules adequately take account of the diversity in employment paths and family relationships that have long existed in the United States?

In addressing the issue of employment, two major segments of the population—minorities and women—have argued that they are unfairly penalized because their needs, expectations and lifestyles diverge from those of the average white male worker who is the prototypical social security contributor and beneficiary. Black men and women, for instance, were heavily concentrated in agriculture and domestic-service jobs during the 1930's and 1940's—occupations not covered under social security until 1950. Women workers in general were also employed in occupations not covered under social security during its first 15 years of existence. As a result, both blacks and women "lost" earnings credits and benefits they otherwise would have garnered had they been employed in other areas.[2] In 1980 nearly three-fifths of all white males but only one-third of all blacks males, were employed in professional, managerial, sales, or highly skilled positions (the four highest paid occupational categories). According to the Bureau of Labor Statistics, most women remain clustered in 20 out of 420 occupations; the vast majority of clerical workers, domestic workers, nurses, elementary and secondary school teachers, and new workers in fast-food and other service industries are women.[3]

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[1] Report of the 1979 Advisory Council on Social Security. Washington, U.S. Govt. Print. Off. p. 86.

[2] Levitan, Sar A., William B. Johnston, and Robert Taggart. "Still A Dream." Cambridge, MA, Harvard University Press, 1975. pp. 220-1; See also Dorothy K. Newman et al. "Protest, Politics, and Prosperity." New York, Pantheon Books, 1978.

Regardless of age, black males with work experience are less likely than white males to work on a full-time basis, an experience shared by women. Given such employment patterns, it is not surprising that blacks and women have average incomes considerably lower than white males. According to the National Urban League, "the average black had $58 for each $100 available to the average white".[4] Comparable historical statistics on Hispanics are harder to obtain, but the data that are available reveal similar differences. Between the ages of 35 and 65, the unemployment rate among Hispanics exceeds that among whites though it is lower than the extent that exists among blacks. Hispanics on the average earn less than their white peers.[5] When comparing levels of income by gender, it was found that 17.5 percent of all men earned at least $25,000 in 1980; only 1.9% of all women had reached this salary level. Women who work full time earn on the average 59 cents for every dollar earned by men—a figure down from a pay differential of 64 cents in 1955.[6] Gender, race, and ethnicity are clearly important determinants of employment patterns and income levels.

Because women and minorities have traditionally earned less than white men, it is not surprising that their average social security benefits are smaller. In 1978 the typical white woman worker's title II pension was 78.9 percent of the men's amount. Pensions for black men averaged 81.6 percent for those of white men; black women workers received pensions that averaged 77.4 percent of the amount for black men and 80 percent for white women.[7] It is worth noting that the differential in respective social security benefits is less than that exists among the various groups' current average earnings. In the interest of maintaining the principle of equity, policymakers have tried to maintain some relationship between employees' contributions to the system and their eventual social security benefits. In the interest of promoting "social adequacy," the progressive weighting of benefits does help those who have been on the low end of the earning scale. Largely because of increased coverage and more generous pensions, considerable progress has been made in reducing the incidence of poverty among older blacks and women, but the extent of their old-age dependency still exceeds national averages. Social security benefits alone do not provide a "minimal level" of income—particularly for those who have had irregular employment at below-average salaries. In fact, there are acute pockets of need within the elderly population. Elderly white men had a poverty rate of 8.5 percent in 1981, roughly half the figure for elderly white women. Aged black men were four times as likely to be poor than white men over 65. Nearly 70 percent of all older black women who lived alone had incomes below the poverty line.[8] As has been the case throughout American history, differences in poverty rates by gender and by race become more pronounced in old age.

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[3] Data from Karin Stallard, Barbara Ehrenreich and Holly Sklar. "Poverty in the American Dream: Women and Children First." New York, Institute for New Communications, 1983. pp. 14, 17, 19.

[4] Williams, James D., ed. "The State of Black America, 1983." New York, National Urban League, 1983. p. 48. Other data come from pp. 65, 69–70.

[5] Jackson, Jacqueline Johnson. "Minorities and Aging." Belmont, CA, Wadsworth Publishing Co., 1980. pp. 139–40.

[6] Stallard, Ehrenreich, and Sklar, "Poverty in the American Dream: Women and Children First," pp. 14, 17, 19.

[7] Hacker, Andrew, ed. "UIS: A Statistical Portrait of the American People." New York, Penguin Press, 1983. p. 188.

Deficiencies in the social security system become evident if we look at those whose shifting demographic life patterns do not conform to men's statistical probabilities. Homemakers are not eligible for disability benefits. A surviving widow or divorcee under the age of 60 with no dependent children is not entitled to collect benefits. Indeed, divorce is often a prelude to economic hardship. In 1977 there were 49 divorces granted for every 100 marriages contracted. Since two-thirds of all divorces occur within 10 years of the wedding, a majority of divorcees under current laws are not entitled to retirement or disability benefits based on their husbands' records.[9] Alongside these considerations are the claims of working married women who feel that the system unduly favors those who have elected to stay at home, and thus will receive proportionately higher benefits than a two-person wage-earning couple would be able to secure for its surviving spouse. Many working women think it unfair that they must support the current elderly through F.I.C.A. taxes on their salaries even though they will not collect on their investment in their old age if they receive a spousal benefit.

Despite the complexity of such arguments, one basic demographic fact cuts across gender-specific differences in household status and employment patterns: Women as a group live longer than men. The difference in life expectancies, moreover, is widening. In 1940 a baby girl could expect to live 65.9 years, 4.3 years longer than a baby boy. By 1978 life expectancy was 77.3 and 69.6 respectively—a difference of 7.7 years. And whereas there were more men than women over the age of 65 until the 1930's, nowadays the elderly population is increasingly female. Experts predict that there will be only 68 older males for every 100 older women by 1990, even though boys slightly outnumber girls at birth. The disparity in sex ratios past the age of 80 is even greater, because gender differences in life expectancy at age 65 have increased over time. In 1940 the average 65 year old woman could expect to live another 13.6 years—18 months longer than her male counterpart. By 1978 women could expect to live 18.3 more years at age 65, but men only 14.1 years more.[10]

Such dramatic increases in life expectancy have serious economic consequences for women in their later years. Since few older women remain in the labor force, they must rely primarily on social security benefits supplemented by savings, other pensions and public income maintenance programs to sustain them in old age. Even though at least 90 percent of the elderly population can count on receiving social security benefits, the amount they receive—while often their largest source of income—is not sufficient to free them from the fear or reality of poverty. For among the elderly, the incidence of poverty rises with increasing age. In 1981, for instance, the poverty rate for persons between the ages of 65 and 74 was 12.8 percent; for those between the ages of 74 and 85, the figure rose to 18.5 percent, still less than the rate (22.6%) for those over 85.[11] Poverty rates for older women at each age exceed that for men. 72 percent of all elderly poor are widows, divorced or never married women.[12] It is a cruel irony that women, who generally have fewer economic resources at their disposal at earlier stages in their lives, are the ones who must live longer on relatively less and less. The aging of the population makes the "feminization" of poverty a pervasive reality.

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[8] U.S. Congress. Senate. Special Committee on Aging. Developments in Aging: 1982: Volume 1. Senate Report No. 98-13. 98th Cong., 1st sess., Washington, U.S. Govt. Print. Off., 1983. pp. 20-1 (Hereafter cited as Developments in Aging); see also James H. Schulz. "Economics of Aging." 2d ed. Belmont, CA, Wadsworth Publishing Co., 1980. pp. 38-9, 46-7.

[9] Burkhauser, Richard V. and Karen Holden, eds. "A Challenge to Social Security." Academic Press, 1983. pp. 31, 103-7; Report of the 1979 Advisory Council on Social Security. Mimeo Draft, p. 90.

[10] 1978 data from National Center for Health Statistics; see also U.S. Bureau of the Census. Some Demographic Aspects of Aging in the United States. Current Population Reports, series P-23, No. 43, Washington, Govt. Print. Off., 1973. pp. 5-7; Glick, Paul C. "Updating the Life Cycle of the Family." Journal of Marriage and the Family, vol. 39, February 1977. pp. 3-15.

Current inequities in the treatment of women and minorities under social security, claim the critics in short, result from two sources. On the one hand, most of social security's operating rules are stacked against those whose employment opportunities and earnings histories differ from the average white male who upon retirement has worked steadily in employment covered by the system and has seen his salary grow during his career. Insofar as blacks and women have suffered as a result of longstanding discrimination in the marketplace, legislators (often unwittingly) have perpetuated these groups' second-class citizenship in late life. On the other hand, even though social security has been adapted over time to accommodate people in very different circumstances, the program itself nonetheless has not been fully responsive to the profound changes that have occurred within the American family during the last half-century. Insofar as the evolution of social security has not kept pace with the times, some people have unduly benefited while others have been penalized by the system's adherence to formulae that apply one (admittedly complex) set of eligibility criteria to all potential beneficiaries.

And yet, while both minorities and women's groups have demanded redress, public officials have been more responsive to charges of sexism than racism. As we shall see, the courts and a succession of blue-ribbon panels took women's rights seriously, and sought to eliminate gender discrimination. The actions of the 1982-83 National Social Security Reform Commission were consistent with recent policymaking initiatives. The pressing needs of aged minorities received scant attention, but an entire meeting was devoted to women's issues. Members of both parties agreed that unintended inequities had to be corrected. In light of the panel's overriding need to shore up the system's financing, however, the group chose not to endorse any specific recommendation that might expand the scope or greatly increase the cost of the OASDI program. Instead, it fine-tuned existing eligibility criteria in order to serve the needs of select groups of women. Congress accepted the Commission's recommendations and promised to reconsider social security's impact on women by the end of the decade.

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[11] Data from Developments in Aging. pp. 68-71; Upp, Melinda. "Relative Importance of Various Income Sources of the Aged, 1980." Social Security Bulletin, vol. 46, January 1983. pp. 4, 7, 9.

[12] Social Science History, vol. 6, No. 2, Spring 1982. p. 227.

Why has the gender issue attracted more attention as a policy problem than the inadequacies of social insurance in addressing America's enduring racial dilemma? Addressing women's issues under social security has taken precedence over minority demands for two complementary reasons. First blacks and Hispanics have been more concerned with dealing with more pressing issues—such as teenage and adult unemployment—than possible biases in the treatment of minorities in retirement. Reduced social security benefits for minorities are primarily the consequence of employment patterns, a category not dealt with by social security policymakers. Whereas race has never been a basis for determining benefits under OASDHI, gender has—insofar as it relates to marital status.

Since the early years of social security, policymakers have been concerned with women as dependents rather than as workers. Incremental policymaking has enabled lawmakers to build on tensions between social security's insurance and welfare objectives in responding to new demands on the system. OASDHI's architects have adjusted the system whenever it was evident that lawmakers would afford citizens greater protection and better returns on their contributions. But in keeping with their cautious approach to reforming the status quo, officials have consistently defined "gender" as an issue of dependency without regard to the changing role of women in the context of work and family. This has had the paradoxical effect of making social security more responsive to immediate problems at the margins, but surprisingly retractable in efforts to overhaul the system so it can adapt to unexpectedly major shifts in society at large.

## B. A HISTORICAL AND VALUES PERSPECTIVE

In its original form, social security was set up to reduce and stabilize a predominantly male labor force amid the crisis of unemployment. Only later, in 1938, were concerns raised about survivors benefits for family members, primarily wives.

Thus, before a single check was issued, the framework for social security was shifted from a person both paying into and receiving from the system on an individual basis to a person paying into the system as an individual employee but receiving benefits as a member of a family unit. The assumptions behind that decision were based on the fact that the typical family of the 1930's was composed of a life-long breadwinner, a financially dependent wife, and dependent children. Only 15 percent of all married women were in the workforce.[13] Even with that reality, the Social Security Administration made several assumptions: (1) During their lifetime women caring for children would earn enough to cover their 50 percent claim on their husband's benefits; (2) the use of revenues from single men was appropriate because they had the assurance of "dependent insurance" upon their own marriage; [14] and (3) over 50 percent of the wives of men retiring at 65 would have died.

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[13] U.S. Bureau of the Census. Historical Statistics of U.S. Colonial Times to 1970, vols. 1 and 2. Washington, Govt. Print. Off., 1975.

Subsequent additions and changes were made without regard to either initial social security assumptions or to the changing patterns in women's work. After years of operating within their own values framework, the Social Security Administration found itself in trouble in regard to discrimination against men. Policymakers were compelled to open up certain categories that had previously been available to women: mother's benefits, ability of widows to collect benefits at age 62, PIA factoring, and dependency benefits available without an income test.

In 1974 former Representative Martha Griffiths said: "The income security programs of this Nation were designed for a land of male and female stereotypes, a land where all men were breadwinners and all women were wives and widows: where men provided necessary income for their families but women did not: in other words; where all the men supported all the women. This view of the world never matched reality, but today it is further than ever from the truth."

By 1977 Congress mandated the Department of Health, Education, and Welfare (HEW) to design proposals to eliminate dependency as a factor in entitlement to spouse benefits and to eliminate any additional sex discrimination in the social security program.[15] In more prosperous times, perhaps different sets of values could have been accommodated, but in leaner times, some hard choices will have to be made. Because 63 percent of all those claiming social security are women, and 8.4 million of them make claims as dependents, any policy to eliminate the dependency category will have considerable impact on women. It is ironic that the present recipients are made up of more dependent women than the working men who were to benefit from the original system. Have women suffered from the system as many suggest or have they manipulated it extremely well?

To resolve the issues involved in dependency, Federal agencies have relied on demographic and economic analyses. This essay constitutes an attempt to add a historical and values perspective.[16] To address the issues relating to the changing roles of women and social security policy, I have paid particular attention to the normative foundations and ramifications of women's choices under social security. My fundamental assumption is that "values" anchor all policy decisions. The way we and policymakers view the world is processed through a set of values which are governed by the various shifts and patterns in our culture. Social security policy is not value free, but what cluster of values have been the most salient? Are they consistent over time or are there sharp breaks? Are there values in conflict with each other which explain seemingly opposite policy decisions in different parts of government policy? If social security policy is to change at all, it is my belief that it will do so within the framework of these already existing value tensions which it can claim as its own rather than responding to values external to the historical trends within social security and culture. Social security in the past has been America's success story; those who wish to alter it will meet stiff opposition and will need to tread lightly.

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[14] Advisory Council on Social Security, 1937, Reprint in. Senate Special Committee on Social Security 1973.

[15] U.S. Congress. House. Committee on Ways and Means. Subcommittee on Social Security. Hearings on President Carter's Social Security Proposals. 95th Cong. 1st sess. May 1977. Washington, U.S. Govt. Print. Off., 1977.

[16] "Spiritual and Ethical Values and the National Policy on Aging." Athens, GA. NICA, 1981. p. A67.

Key concepts in social security debates over the years have been adequacy and equity. The distinction between "social adequacy and individual equity" was and is crucial to any social security analysis. Early arguments were that if insurance were voluntary, one must assure equity; if it were compulsory, it must protect covered persons from hazards and provide a minimum support.[17]

Adequacy advantages for women included early retirement at 62, mother's benefits if widowed, earlier widow claims at 60, PIA factoring at 62, and wife dependency benefits without any income test. But the adequacy advantages were what opened social security to be challenged in the 1970's in the name of equity for men. The courts ruled in the name of equity that each adequacy advantage must be made accessible to men. This has been a costly venture, one unanticipated by the social security policymakers. As familiar as they were with balancing equity and adequacy, they had not looked at the tension in relationship to women. Concentrating on traditional role models and a commitment to tilt benefits in favor of the poor, women's needs over the years were only looked at in terms of adequacy. Social security policymakers remained in a vacuum while all around them other agencies were forced to deal with such issues as equal pay for equal work, quota systems to guarantee equal access to jobs, and stability on the job once employed. Many interest groups now are looking to social security policymakers to pick up the gaps left by others' failures to meet equity needs. At present, interest groups are pushing the Social Security Administration to both increase adequacy for recipients and deal with noninsurance equity issues.

Additional key concepts in social security have been dependency and independency. In the 1930's women's dependency on their husband's earnings was evident. Their earlier preindustrial role as copartners in productivity had long lost its power. Between 1940 and 1960 decisions regarding appropriate benefit levels were still made solely within the context of assumptions about women's dependent status. At the same time, the increasing number of women entering the labor force in response to World War II signaled the beginning of a dramatic shift in women's work patterns. Three and a quarter million women left the work force after World War II but two and three-quarter million returned. Today we live in a time when marriage has become less common among younger women; divorce rates have risen; fertility has dropped; women work more outside the home; and women's life expectancy continues to increase faster than that of men.

Despite these significant trends and changes, the dependent value attached to womens' status in society remains operative at the policymaking level. Well after statistics indicated that there are more women in the work force than not, benefits continue to be most advantageous for the women who always stayed at home. Even these women want recognition that what they do is work and therefore wish to receive social security benefits in their own right for the function they perform, but they want to do so without paying into the system. What can policymakers do to eliminate a dependency category that has been an operative value since the 1930's?

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[17] Hohaus, Reinhard, "Equity, Adequacy, and Related Factors in Old Age Security." The Record, American Institute of Actuaries, June 1938, p. 77.

Proposals of the 1970's regarding the retirement of women under social security were ambitious ones, providing a variety of options for policymakers. Each was written with a set of value assumptions about potential economic growth in this country as well as assumptions about where women fit into that economic arena. Three of the proposals, the Working Spouse Plan, the Ball Plan, and the Frazer/Keys Plan, kept the dependency benefits within the framework of title II of social security as an earned right. Two of the proposals, the Campbell Plan and the American Association of Retired Persons and the Retired Teachers Association Plan, re-emphasized social security as an insurance policy in which the individual pays into the system and receives benefits as an individual from the system. Those in need would be covered instead through SSI, using general revenue funds. Two plans, the Abzug and Jordan Plans, introduced a homemaker's credit by which a woman can claim benefits in her own right. And finally, the Earnings Sharing Approach and Double Decker System attempted to delineate more clearly the distinction between when benefits are a response to equity concerns and when they are a response to adequacy needs.

Under circumstances of economic growth, several of these proposals would have received a great deal of favorable attention. They would have provided a tilt of recognition to the concerns of working and divorced women, while keeping in place the time honored assumptions of dependency. The discontinuities of the present would have been again covered through incrementalism. The economic crisis, however, became so dominant that it became politically too risky to raise any issues concerning women.

Given the new economic climate, are these proposals relics of the past or will some elements possibly be pulled out in a new context? The financial constraints are enormous and it may be because of them that the issue of women's relationship to social security will reappear. Those proposals which require additional money and which fit the incrementalism model such as the Working Spouse Plan and the Homemaker's Credit Plan, will not receive a hearing. In both cases, the particular plans mentioned ask for additional benefits based on equity concerns; that has rarely happened in social security policy.

It is quite possible that portions of the Ball Plan could serve as a bridge to get at the earnings sharing approach and again bring social security closer to a pension system for individuals rather than for families. Recognizing that dependency still exists in many forms, an earnings sharing approach allows for the ambiguity in women's work history while at the same time shifts the burden of a dependency life-style on the family unit. Such an approach requires that men join women as co-partners in a marriage and share common resources. This is not only a more equitable understanding of what happens in marriage; it also would prevent a sizable number of women from being pushed into a poverty category if the Government should consider adopting an individual paid worker plan as suggested in the Campbell Plan and the AARP and RTA Plan. Whatever small revival of feminism there is, is also coming from a more balanced perspective recognizing that work and family are mutually important to women.[18]

Earlier social security values may once again emerge as the basis to address the problem Stephen Crystal, in his book, "America's Old Age Crisis: Public Policy and the Two Worlds of Aging," suggests that the severest need in old age is largely a women's problem.[19] Does this mean then that maintaining dependency categories is the most appropriate way to meet these needs despite the cost? Let us recall that the context for the introduction of the dependency category was that the worst off elderly in 1938 were married couples. The worst off elderly are indeed dependent women but their need is not caused solely because they are women. They are what Stephen Crystal calls "multiple jeopardy groups"—those over 75 years old, single, widowed, women, or non-white. Those worst off combine several of these characteristics. The worst off elderly are in no position to avail themselves to political activities or lobby for public benefits so we see the concerns of the younger and more comfortably off aged, who can vote and organize, prevail. The interests of differently situated older people are divergent. Age specific policy at present has been less likely to provide a "safety net" to maintain a floor of economic well-being and access to services than other policies attempting to address adequacy needs. For this reason, the following policy proposals will be more "needs" directed than "age specific".

## C. POLICY RECOMMENDATIONS

In looking at new approaches to social security policy, equity/adequacy issues will have to be looked at in terms of the aging population itself as well as their implications for generations to come. Historically, social security was designed to both address the needs of the older nonworker and the younger worker. Of late, we have neglected that balance in favor of a growing and powerful old people's lobby. One will have to keep in mind what Crystal calls the two unequal worlds of aging: The better off young-old (65-74) who are married, in good health, and have income assets, and the world of the old-old who are in poor health, widowed, and isolated.[20] We will also have to look at social security policy in terms of the tax base. What responsibility does Government have in providing equity between generations? While a surface continuity with a dependency category is real, the economically dependent population has shifted over time. It has shifted to a "multiple jeopardy" group of primarily old-old women. To provide adequately for that "multiple jeopardy" group within the context of providing a minimum income to the total population of married women would require considerable economic expansion, a buoyant population growth, and stagnant life expectancies. Since that is not the case, I advocate the eventual dropping of the dependency category for all women in favor of providing a safety net for the old-old and the poor.

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[18] Friedan, Betty. "The Second Stage." New York, Summit Books, 1982.

[19] Crystal, Stephen. "America's Old Age Crisis." New York, Basic Books, 1982. p. 26.

[20] Robertson, A. Haeworth. "The Coming Revolution in Social Security." McLean, VA, Security Press, 1981. p. 121.

Decisions which need to be made are hard ones and it is for this reason that a values-oriented approach was chosen in order to provide clarity to our past and consistency in our future. To provide a broader perspective, it is important to assess our past in such a way that we can determine which values are archaic and in need of replacing and which ones are important to keep. Value sets are meant to be in polar tension; each pulling on the other to perhaps bring us back to something of more central importance. Policy will perhaps swing, at least in expectation, far in one direction, as it did during the civil rights era only to be drawn back the other way in the next decade.

I concur with the general consensus that whatever new legislation is passed, it should not dramatically alter the benefit level of present recipients. Choices that they made were in a particular context and world view and they ought not to have to pay for choices never available to them. A transition period for those who stand to lose from legislation appears to be a reasonable option. Social security was designed as a program with future promises.[21] For those whose future is now, we ought to hold fast, but for those of us whose future is before us, we must expect change. Certain aspects of the 1970's proposals deserve to be rescued in a new light and in conjunction with past social security value sets. Ironically, it may be that the short-term cuts proposed by the National Commission on Social Security will lead legislators to the reality that the problems still exist and that a broader frame of reference is required to deal with the complex issues at hand.

In examining the present economic needs of older women and the diversity of life choices they make within the context of historically explicit social security value assumptions, the following proposals are made:

(1) The 50-percent bonus given to dependent spouses should be eliminated. The dependency bonus was introduced at a time when couples were deemed to be the most needy. Women spent almost all their lives raising children and in fact many did not live long enough to see their last child married. It was assumed that women, even then, would work enough to make up the difference in that small bonus which would be granted over a short time span until they died. As benefits grew and women lived longer, that bonus became a disguised welfare bonus and no longer served to meet the needs of the most poor. Marital status no longer serves as a legitimate criterion for adequacy needs; in fact, adequacy needs are most acute among single women. One must ask what criteria more honestly reflect the concerns in 1985?

(2) A provision for child care years out would highlight several values consistent with past policy. As Virginia Reno correctly

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[21] Crystal, "America's Old Age Crisis," p. 152.

noted, it is the care of children that our society values as a public benefit and it is the value of wanting that care given without penalty that ought to be enhanced. By creating such a provision within social security policy, we reaffirm the original intent of the 1938 legislation within today's world view. In this way, either a father or a mother could claim a certain number of years out depending on who cared for the child. This provision also eliminates the question of providing direct cash benefits for a particular function; it instead gets at the concern in terms of a "time credit".

(3) This provision should then be coupled with the earnings sharing approach insofar that social security policy would then say that the choices that a couple makes about their private lives becomes their responsibility. If a couple determines that one of them should stay home and care for the home which is a private benefit for them, then it is the Government's responsibility to see that whatever public benefits they have accrued together be equally divided. A precedent already exists in terms of ownership of property. These two provisions allow for social security policymakers to bring back into balance both their original intention in relationship to an individual/family polarity while recognizing the continual tension that exists in his country in the traditional/modern polarity. The provisions also help clarify where responsibility lies; with the Government or the family. The Government has a concern for the public good of raising children; the family has responsiblity for the private and diversified choices which it makes.

In reclaiming some old values, some specific equity and adequacy needs are also addressed. Working women have complained that their in and out work history, their low pay, and their having to choose between dependents' benefits and their own puts them at a greater disadvantage than the women who have never worked. While, historically, social security policymakers have not chosen to deal with the lower wages and job discrimination of women, they can provide through these two provisions a more equal share of benefits between two partners as well as provide for two-earner couples a greater benefit level. For both the divorced working woman and the displaced homemaker, there is the advantage of claiming one-half of the total combined incomes as well as the right to claim them as individuals and not be bound to the time frame that an ex-husband chooses to retire. There is a particular advantage for the working widow and widower in that upon the death of a spouse, they may claim 80 percent of the combined benefit or 100 percent of the highest benefit. These provisions lift up an earlier understanding of marriage as a copartnership in which decisions about roles would be joint decisions and each would bear the consequences of such decisions.

The combination of long years without children at home and the economic climate makes it even more unlikely that women will have the choice to be a "housewife, full-time life-long." [22] It does not, however, preclude such a choice within any particular family unit. Thus, adequacy, to some degree, is addressed in terms of those presently most in need, the divorced and the widowed. Equity is addressed in terms of distribution of benefits between spouses. Issues related job discrimination and wages are not addressed which is historically and presently consistent with social security policy.

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[22] Friedan, "The Second Stage." New York, Summit Books, 1981. p. 204.

(4) For such provisions to keep the full intentions of social security alive in terms of responding to the most needy, some "backstops" or "safety nets" must be kept in place. There are and will be people who leave the work place involuntarily; there are and will be people who become ill and disabled; and there are and will be people who cannot find employment. For these people, SSI ought to be available on a needs tested basis at the same age level as now. This is particularly important for women who become disabled or who as displaced homemakers cannot find work. These benefits would continue to be provided through a combined State and Federal Government program.

(5) A second "safety net" ought to be made available for the most frail elderly. Since the bulk of the aged are no longer poor, there is less reason to provide benefits to older people simply because of their age. While some argue against age specific policy; consideration needs to be given to such a category as longevity needs. There ought to be a way to work through the maze of SSI so that a guaranteed minumum income is available for those very old with no additional income. The basic Federal SSI payment is supplemented at the prerogative of each State and has been historically inadequate.[23] Considering the plight of most States, it is unlikely that SSI benefits will improve. Insofar as it is the old-old who are the most frail and vulnerable, I would propose that there be a federally guaranteed minimum income for those without other income. Women's economic dependence is most real beyond their seventies and it is here that adequacy needs ought to be focused.[24]

Earlier this year, the House Ways and Means Committee issued a 632 page Report on Earnings Sharing Implementation Study.[25] At the heart of the document was a judicious critique of the transition costs, administrative aspects and incremental options associated with "generic earnings sharing," a "modified generic earnings sharing plan," and a "no-loser earnings sharing" alternative. Reaction to the report was muted, in part because both the White House and Congress have yet to disentangle social security policymaking from the debate over the Federal deficit. Insofar as earnings sharing will cost more in the short-run, it is not an idea that presents itself at an auspicious moment.

This sobering reality forces us to come to terms with the treatment of the modern American women under social security and adequacy from as broad an historical and normative perspective as possible. Understanding the "big picture" is essential. But there are limits to what we can hope to accomplish. Even with the most comprehensive and imaginative of incremental reforms, we cannot hope to resolve all of the anomalies and tensions embedded in social security's operating procedures: Some go far beyond the system itself into enduring norms and shifting patterns of American life. Yet this fact does not obviate our responsibility to correct inquities and inadequacies that still exist in the program after nearly 50 years of adapting the program to reflect ever-changing empirical realities. Social security policymaking has always been confounded by demography, our pluralistic value system, and historical change. The challenge of reform is to avoid entrapping ourselves in assumptions and procedures that have become obsolescent. We need to devise and implement policies that are fluid and flexible enough to facilitate what we want to do, ever mindful of the unexpected impact of some of our best laid plans.

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[23] Crystal, "America's Old Age Crisis," p. 186.

[24] U.S. Department of Health, Education and Welfare. "Social Security and the Changing Roles of Men and Women." Washington, 1979. p. 170.

[25] U.S. Congress. House. Committee on Ways and Means. Report on Earnings Sharing Implementation Study. 98th Cong., 1st sess. Washington, U.S. Govt. Print. Off., 1985.

## Chapter 6

# CONTEMPORARY SOCIAL SECURITY IN COMPARATIVE PERSPECTIVE: WHAT KIND OF CRISIS?

(Prepared by Peter N. Stearns,[1] Heinz Professor of History and Director of European Studies, Carnegie-Mellon University)

## A. INTRODUCTION

During the past decade, pressure from a number of sources has generated questions about some of the basic premises of the United States social security system. Conservatives have challenged the expense of the system and its impact on the economy. In addition, a number of advocacy groups and liberal politicians have also queried such established assumptions as the provision of old age benefits regardless of need and the pervasiveness of retirement itself. While there have been important modifications with others impending, these challenges to social security have not undermined the basic principles of the system. They have, however, contributed to an environment of public uncertainty and political controversy. This new uncertainty, combined with opportunities for reassessment offered by the 50th anniversary of social security, invites a new effort for historical perspective of this most important of America's social welfare programs.

Interestingly, during the same period, a similar kind of contentious debate has not arisen within Western Europe, despite a number of similar objective problems and, indeed, greater costs and a less favorable age structure. In fact, many European governments seem bent on encouraging more retirement rather than less. While sharing some concerns with American politicians, both the tone and the substance of recent European reactions to new demographic and economic patterns have differed significantly from those in the United States.

A comparative context for studying the American welfare system is familiar enough. Discussions of the origins of key American welfare measures, including social security, routinely note the European precedent,[2] particularly in Bismarckian social insurance and also in British legislation of the early twentieth century. Comparative analysis has also been applied in what long seemed an endless "why not" examination of United States failure to enact comprehensive government health insurance along one of several available European (and Canadian) models.[3]

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[1] The author wishes to thank Dana Bradley for assistance in research, and Ms. Bradley and W. Andrew Achenbaum for a number of useful suggestions.

[2] Lubove, Roy. "The Struggle for Social Security." Cambridge, Harvard University Press, 1968; Achenbaum, W. Andrew. "Shades of Gray." Boston, Little, Brown, 1983.

[3] Marmor, Theodore. "The Politics of Medicare." Chicago, Aldine, 1973.

Now that welfare systems are receiving new attention, amid growing uncertainties, it is timely and informative to apply a comparative perspective to current debates. To be sure, most past comparison has focused on social welfare as a logical goal of contemporary governments in advanced industrial societies, which the Europeans reached first. It may thus be regarded as tendentious. Now that the social welfare issue has been partially refocused by circumstance, and may be seen as an irresponsible or unfortunate plunge rather than the result of inherent, if socially-responsible logic, one might anticipate that the comparative vision would be recast as well. The United States might thus be seen as blessedly farsighted in its reluctance to engage in a full welfare system, rather than oddly lagging behind European initiative. This approach has been suggested in popularized American analyses, bent on seeing Europe as a moribund society and on gaining comfort from picturing Europeans as worse off than ourselves. However, actual comparison, as opposed to fanciful projections, suggests a somewhat different perspective as well and will be the subject explored in the following pages.

Most comparative work on American and European welfare has treated Europe as a model to which the United States will or should converge. Thus, what Europeans do is cited as a desirable precedent for American imitation. Yet some analysis has already suggested that a convergence model is inexact, since some fundamental premises differ on the two sides of the Atlantic. Reactions to new problems largely confirm this insistence on divergence within a shared culture. This means, in turn, that while we can learn from the European experience and even borrow selectively, full imitation is not likely and even selective imitation may be difficult. Comparison, in other words, is most valuable for casting light on distinct basic assumptions.

## B. HISTORICAL BACKGROUND

The empirical differences between European and United States approaches to welfare issues in the past are readily stated. Many European governments displayed a sense of welfare responsibility long before the American commitment. German social insurance against problems of old age, accident and disease dates from the 1880's, while a pilot British project to insure against unemployment was created in 1911. Well before World War I most central European states (not only Germany, but Austria and Scandinavia) as well as Britain and many Commonwealth nations had important welfare measures on the books. To be sure, France and Italy lagged, relying more on voluntary (and inexpensive) programs than their European brethren; but even here legislation surpassed American levels and discussion of welfare issues was considerably more sophisticated. It is also true that many programs were rudimentary by contemporary standards but the same could be said about actual American benefit payments (as opposed to provisions) in the old age area into the 1950's. It is true, finally, that comparisons are sometimes flawed by a failure to recognize the lead taken by some key industrial and/or reformist States and by some private insurance and pension plans; a Federal vantage point alone is clearly misleading. Nevertheless, the basic point remains that the United States lagged by several decades, according to European standards, in basic welfare developments. Social security, impressive as it was, came late.

In addition to chronological lag were also distinct differences in the range of coverage offered by American social security as opposed to its European counterpart. While social security did resemble a number of comparable European programs (in fact, surpassing them in benefits provided to the elderly but lagging in the duration and amount of unemployment compensation) it was not surrounded in the United States by other social welfare measures. In Europe, in contrast, particularly during the flurry of legislation between 1945 and 1950 in France, Italy and Britain, social security became merely part of a larger welfare package. This package included some form of state assured health coverage, large amounts of public housing, new education benefits, particularly for university stipends, and some form of family assistance through escalating payments according to the number of children born per family. The best-known American omission, in its unique failure among industrialized nations to provide some kind of national health scheme, is then only one among several ways in which the American welfare pattern remained far less comprehensive than its European counterpart. And while the Great Society programs of the 1960's closed the gap somewhat, it did so only incompletely (medicare/medicaid vs. health coverage for the entire population; student loans vs. uniform stipends) as well as, again by European standards, belatedly. And, it now turns out, it did so also only briefly as many Great Society programs were undone or partially dismantled within 15 years of their creation.

Why have American and European approaches differed so markedly in timing and scale? A number of factors must be considered. Accident and event play a role; devastation in World War II prompted housing initiatives simply unnecessary on this side of the Atlantic. Government housing responsibility was the leading issue in Britain's watershed 1945 election, leading to middle-class defections to Labour. There has never been such pressure in this country for government to provide housing, despite shared themes between the British Beveridge reports and Roosevelt's National Resources Planning Board statements. Objective problems differed in some cases on even a longer-term basis. French concern about particularly low birth rate levels prompted an unusual concentration on family assistance programs, beginning even before World War II. In contrast, the United States, with higher average fertility and a longer tradition of reliance on immigration, has not generated enough pressure even to prompt tax deductions for children to keep pace with inflation.

Underlying reactions to events and objective problems were crucial differences in class structure and political experience. Much early European welfare legislation reflected, if in novel ways, an aristocratic tradition of admitting some responsibility for society's unfortunate and willingness to use government for paternal ends. The United States, with scant counterpart to an aristocracy, greeted the problems of industrial society with a more unqualified middle-class approach. This approach was not unwilling to use government, for example, to promote railroad development or to open the West, but it was wedded to a classical liberal rhetoric that made it difficult to admit how active government in fact was, and still more difficult to advocate use of government resources for social goals. Of course this approach was finally challenged, or else social security itself could not have been enacted. Still, the challenge was slow and, in many ways, incomplete. Thus, the United States experience in welfare differed from that of Great Britain, which had by the end of the 19th century already begun to retreat from an even purer classical-liberal (or laissez-faire) stance toward domestic initiatives by the state.[4]

Furthermore, the United States lacked, particularly after 1918, a labor-based political activism comparable to that which has developed in virtually all other industrial countries.[5] The threat of socialism spurred much earlier European welfare activity, including Bismarck's. Since the early 1930's, the involvement of socialists and some communists in all levels of government has been crucial to the elaboration of the European welfare state. The United States, with on the whole a weaker labor movement and certainly a less politicized one (note the long A.F.L. resistance to social security because of its bread and butter goals) has not experienced this form of pressure from labor to the same degree.

Variations in the results of war as well as differences in social tradition and modern politics, surely account for the important differences that emerged between American and European welfare systems; the most important difference being the crucial distinction between a social security system standing relatively alone as a major welfare initiative as opposed to a social security system embedded in a larger, and more expensive, overall structure. The differences in cause and result, it has plausibly been argued, add up to a more basic distinction between Europe and the United States in terms of how the relationship between the state and modern society is legitimized.[6] Americans, so this argument runs, despite their undeniable commitment to social security, do not primarily judge their government's legitimacy in terms of assurance (at least in principle) of equality of opportunity. If individuals have a roughly equal start in life, expressed particularly through access to education, subsequent differences in result are consequences of individual flaws, not social responsibility. In Europe, in contrast, where social mobility has long been less valued and thought to be less possible, equal opportunity rhetoric is less persuasive because it is viewed as less realistic in light of an inevitable social hierarchy. Hence, more attention must be given to welfare to underwrite the worst risks of poverty and misfortune, which are not attributable to individual fault.

Thus, the United States spends far more on education than Europe does, most notably through supporting, by public and private means, its vast college and university establishment (embracing roughly twice as large a percentage of the relevant age group as its European counterpart). The United States has devoted considerably more attention and expenditure to equal rights legislation of various sorts in recent decades. In contrast, Western Europe, while attentive to serious reforms in education and legislation for women, has concentrated particularly on its welfare system.

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[4] Bruce, Maurice. "The Coming of the Welfare State." New York, Schoken Books, 1966.

[5] Helco, Hugh. "Modern Social Politics in Britain and Sweden: From Relief to Income Maintenance." New Haven, CT, Yale University Press, 1974.

[6] Heidenheimer, Arnold J. "Comparative Public Policy: Policies of Social Choice in Europe and America." New York, St. Martin's, 1975.

The United States has emerged a society prone greatly to exaggerate the amount of social mobility within its ranks. In contrast, Western Europe is a society prone to minimize exactly the same phenomenon.[7] The United States is a society where 85 percent of the population identifies itself as middle class, Western Europe a society where distinct class identities readily surface with a mixture of pride and regret. The American self-image reinforces its mobile, middle-class identity through its hesitancy over a large welfare commitment, the European papers over perceived social divisions with precisely this commitment. The idea of two distinct political cultures in the welfare area should not be pressed too far. It does, however, explain the undeniable differences in timing and extent of welfare developments over the past century. But the actual social trends faced by the two societies have not differed as much as the political responses. Thus, to take a benign example, rates of social mobility in recent decades have been very similar, even though perceptions have been exaggerated in characteristically opposite directions.

The clearest qualification, however, to the idea of separate welfare approaches comes in the American institution of and veneration for the social security system. Here is a very European-like measure (aside from its federal structure) in its ultimate near-universality, its provision of benefits not strictly according to need, and its definite but limited redistributive features. American acceptance of social security also parallels widespread European acceptance of welfare approaches developed in the 1930's, including some minimal protection against the material problems imposed by old age or unemployment. Just as Europeans learned to accept welfare protections without taint of dole or personal failure, so Americans learned within a generation to see social security as their due, and to adjust their definitions of family responsibility for the elderly accordingly.[8] Just as Americans expanded social security benefits incrementally in the prosperous decades of the 1950's through early 1970's, so Europeans advanced their benefit programs as well, mainly through extensions of coverage and redefinitions of adequacy.

It was possible to see the two systems as ultimately converging. Certainly a good bit of liberal American analysis was devoted, into the 1970's, to arguing that once the United States realized the necessity (read: European and Canadian example) of some kind of national health insurance, then we would have finally made good our welfare lag. In fact, this analysis missed the wider range of European welfarism even aside from health care, and it greatly exaggerated the probability of a national health care scheme not targeted simply at discrete groups.

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[7] Hartmut, Kaelble J. "Eras of Social Mobility in 19th and 20th Century Europe." Journal of Social History, v. 17, March 1984.

[8] Achenbaum, W. Andrew. "Old Age in the New Land." Baltimore, Johns Hopkins University Press, 1978; Van Tassel, David, and Peter N. Stearns, eds. "Old Age in a Bureaucratic Society." Westport, CT, Greenwood Press, 1986.

Then came the "crisis" of the 1970's and early 1980's. Inflation soared; though less in the United States than in several key European countries. Economic growth slowed; though until 1980 more in the United States, than in most European countries. The results of changing demographic patterns hit home. The baby boom that had cushioned certain welfare expenditures, particularly for the elderly, ended in both societies in the early 1960's (in fact, somewhat earlier and more decisively in Europe than in the United States). It was followed by what might have been termed a relative geriatric glut, which already burdened old age and medical care support systems and which threatened, particularly when babyboomers themselves turned into elderly dependents early in the next century, to unbalance budgets permanently.

This "crisis" was, in broad outline, a comparable phenomenon on both sides of the Atlantic. Its demographic conditions were somewhat more severe in Western Europe than in the United States, as the American birth rate held up better and life expectancy rates were slightly lower. Its economic contours were harder to compare. The American economy had been growing at a slower pace than the European. The shock of inflation and temporary oil shortages may have been greater in the United States than in Europe because of lack of previous experience, including experience in energy conservation. On the other hand, the American economic recovery of the early 1980's was not matched in Europe, where unemployment rates soared much higher over normal postwar levels and remain problematic. In both cases, however, the confrontation of changing demographic patterns along with new economic issues forced new attention to welfare responsibilities. In turn, the nature of this attention revived the distinctive approaches to welfare that had already developed between the trans-Atlantic siblings.

## C. THE AMERICAN RESPONSE TO THE "CRISIS"

Changes in the American context for social security and welfare more generally over the past decades are familiar enough. A strong sense of crisis developed, once social security and other welfare measures could no longer be improved incrementally through the side effects of growing prosperity.[9] Social security votes became difficult; sacred cows were desacrilized. Reform issues that seemed logical as late as 1978, such as the issue of equitable treatment of women in social security no longer received as much attention. Non-social security welfare was scaled back, and provisions of social security not relating to the elderly were curtailed. While some of this response was led by conservative Republicans, who in fact wanted larger cuts, it is important to note that the atmosphere of crisis was bipartisan. It was a Democratic administration that worked to raise the age of normal retirement, hoping in this way to defeat the demographic trends. And while it was a Democratic administration that also sponsored tax increases to support growing social security expenditures, many Democrats also went along with Republican initiatives in 1981 to scale back income tax rates; welfare expenditures that could not be cut were not supposed to hurt much, and in their different ways both major parties seemed to agree on this point.

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[9] Derthick, Martha. "Policymaking for Social Security." Washington, Brookings Institute, 1979.

Both parties also agreed in seeing the new welfare "crisis" in rather narrow actuarial terms. Thus attention riveted on the growing old age segment. From some conservative pens came rumblings about generational war.[10] More generally, it seemed agreed that demographic trends, along with their revenue and expense implications, were the only ones worth charting. The larger significance of the retirement system that social security had helped to create (admittedly, somewhat unintentionally) was ignored, producing among other things some exaggerated hopes that changes in legal retirement age would produce masses of new older workers.[11] In a society incapable of balancing its Federal budget, balancing its welfare budget seemed to be compellingly significant. Indeed, placing OASDHI into the unified budget after 1969 increased pressure in this direction.

To be sure, in the core aspects of social security that covered old age, not much change actually ensued save for increasing withholdings and extending participation to public employees. Recalculations of indexing and relatively modest curtailments of benefit increase rates cannot be rated drastic attacks. The plan to increase retirement age through benefit scheduling shifts, rather than merely encourage later retirement is more serious, though the gradualness of its implementation has deflected widespread comment. This shift, along with the continuing crisis atmosphere that brought new discussion of benefit freezes, denoted important features of the national political climate. The new anxiety about the Nation's largest and heretofore most secure welfare program promised recurrent political agonizing and, possibly (depending on how polls were phrased and what age groups responded) some erosion of popular confidence in the system as well.[12]

American anxieties spilled over into assessments of problems abroad. Misery loves company, and an accurate realization that some American problems were widely shared resulted in considerable comment. Even the Japanese, normally models of postindustrial virtue, came in for brief review as press accounts noted the early Japanese retirement age and the inadequacy of lump sum pension payments amid growing longevity. But Europeans were a more inviting target because their economic performance was faltering, and their welfare experience was more widely known. It was easy to imagine (and, possibly accurate as well) that if we had problems, they, with their larger welfare obligations, must face near-disaster. Outlets such as Newsweek began to herald Europe's decline in terms that had not been used since the early 1950's when it was confidently predicted that Europe would never recover economically and would forever be dependent on American aid.[13]

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[10] Mitchell, William C. "The Popularity of Social Security." Washington, American Enterprise Institute, 1977; Kaplan, Robert S. "Financial Crisis in the Social Security System." Washington, American Enterprise Institute, 1978.

[11] King, Gail Buchwalter, and Peter N. Stearns. "The Retirement Experience as a Policy Factor: An Applied History Approach." Journal of Social History, v. 14, Summer 1981; Graebner. William. "A History of Retirement: The Meaning and Function of an American Institution." New Haven, CT, Yale University Press, 1980.

[12] Taylor, D. Garth. "American Politics, Public Opinion, and Social Security Financing." Skidmore, Felicity, ed. "Social Security Financing." Cambridge, MA, M.I.T. Press, 1981. pp. 235-273.

While Europe's maladies were various (including increasing restiveness at American diplomatic and military leadership) its welfare commitments were certainly rated as a serious part of the illness. Welfare was blamed for high worker absenteeism and poor job performance, reviving an American comparative staple of the early 1950's. The sheer burden of European welfare expenditures seemed to promise either a lack of funds for further economic development and personal initiative, or crippling political squabbles, or both. It was noted that European governments had boosted social outlays to 26 percent of GNP during the 1960's and 1970's, compared to a presumably healthier 21 percent level in the United States. Interestingly, the European rate of increase for social outays was 86 percent compared to the American 91 percent in the same period. So publications like Newsweek proclaimed under headings such as "The Decline of Europe," this irresponsibility was now coming home to roost. Europeans were worried about their future, concerned about the mindless expansion of welfare costs, and yet tragically unsure of how to stem the tide. By implication: Thank heavens that our welfare problems, while tough, are at least manageable.

This view of Europe's welfare burdens may be accurate. The comparative difference in welfare structure between European society and our own may well prove a decisive determinant of subsequent economic and social vitality, to the Europeans' detriment. This kind of forecast involves a host of imponderables, aside from current welfare patterns, yet it cannot be ignored. What must be attended to before undertaking any larger assessment, however, is the point that much American analysis has missed: The European mood about welfare problems continues to differ from our own, leading to distinctive policy responses—and the differences may be growing.

## D. THE "CRISIS" AND WESTERN EUROPE

A sluggish economy, growing unemployment and demographic change have certainly troubled Europeans. In describing a distinctive European reaction there is no need to pretend some mindless optimism. Yet what must impress the student of recent policy and politics is the relative absence of tremendous anxiety about the overall thrust of welfare programs including old age support. Describing this relative equanimity and explaining it help to highlight the contrasting American mood of recent years.[14]

European commentary on welfare issues has not evoked images of generational conflict. It would be wrong to overemphasize this current in American debate, but the fact that it has surfaced at all is interesting. It does serve as a reminder that the American welfare system is much more skewed toward one age group than is the European. Because European systems extend recognizable benefits from cradle to grave, there is much less temptation to pit age groups against each other within the system.

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[13] Sullivan, Scott. "The Decline of Europe." Newsweek, v. 103, Apr. 8, 1984. p. 44ff.

[14] "Social Security Problems in Western European Countries." Social Security Bulletin, v. 47, February 1984. p. 17.

Europeans are more interested in discussing welfare issues as political rather than ineluctably economic or actuarial problems. They see decisions about welfare levels as matters of political choice, and not, as has been an American tendency, as somehow divinely ordained through economic logic if only we could discern what that logic is. "Where actual limits lie is probably more of a question of government's capacity to mobilize political support for their social policies than of 'objective' economic conditions."[15] Europeans are accustomed to seeing their systems subjected to political debate and so have been less upset by the fact that debate is now necessary; their recognition of near-universal support for the systems themselves actually facilitates the possibility of debate over specific cost or benefit changes.[16]

Europeans have spilled less ink than Americans over possible burdens on the welfare system when the baby boom generation finally ages come the year 2010. This is partly the result of political accident. The requirement in American social security law of 50-year projections has certainly helped color American debate, and stimulated the tendency to leapfrog into the 21st century. This may of course prove to be desirable foresight. European law contains no such projection requirement, which is why debate has tended to focus more strictly in the 1980's and 1990's which are, demographically, more manageable.

But there is more than accident involved. Since European welfare systems bear relatively equally on all generations, shifts in age structure are simply less troubling. Europeans note far more easily even than American welfare advocates that what must be spent on larger old age groups will be saved in terms of the high dependency costs of the young. The fact that Americans are understandably prone to focus on welfare costs affecting the elderly rather than seeing a larger dependency cost category, and the fact that school costs and social security costs emerge from different levels of government, make this equanimity more difficult to achieve in this country than in Europe.[17] The argument for tradeoffs in dependency costs has, as a matter of fact, made little headway in the United States, whereas it is common among European policymakers who have more latitude directly to take from youth budgets, as youth declines in number, and place in old age budgets.[18]

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[15] Alber, Jens. "A Crisis of the Welfare State? The Case of West Germany," paper presented at a Conference of the European Center for Political Research, Florence, Italy, March 1980. Quoted in Rix, Sara E., and Paul Fischer. "Retirement Age Policy." New York, Pergamon Press, 1982. p. xvi.

[16] U.S. Congress. Senate. Special Committee on Aging. "Social Security in Europe: The Impact of an Aging Population." Committee Print, 97th Cong., 1st sess., December 1981. Washington, U.S. Govt. Print. Off., 1981. (Hereafter cited as Senate Aging Committee, Social Security.)

[17] Myles, John. "Old Age in the Welfare State: The Political Economy of Public Pensions." Boston, Little, Brown, 1983.

[18] Wander, Hilde. "Zero Population Growth Now: Lessons from Europe." Espinshade, T.J., and W.J. Serow, eds. "The Economic Consequences of Population Growth." New York, Academic Press, 1978, p. 57; Stein, Bruno. "Social Security and Pensions in Transition." New York, The Free Press, 1980. p. 204; Eichner, Harold and Klauss Grossjohann. "Demographic, Biomedical, and Economic Influences on Future Retirement-Age Policies." p. 56. Working paper for a policymaking seminar, April 1980. Cited in Rix and Fischer, Retirement, p. 23.

Relatedly, European policymakers see less differential between old age and childhood dependency costs than do their American counterparts. Europeans provide more public monies for childhood services, including college scholarships than do Americans. Consequently, they see per capita youth versus old age expenditures as more nearly equal than is the case in the United States, where in 1975 the annual per capita burden was rated almost three times higher for the elderly than for youth.[19] This different calculation, reflecting again a different welfare balance among generations, makes it easier for Europeans to contemplate transferring public costs to meet a shifting demographic balance without great fiscal pressure.

In the most interesting explicit contrast with American reactions, Europeans have in recent years sought to lower rather than raise the retirement age. President Mitterand in France moved the retirement age to 55 when he took office. Sweden has recently moved its retirement age downward from 70. Large numbers of workers in many European countries are now retiring at or around age 55.[20] In American terms, this seems extraordinary. In a society with a larger percentage of old people than the United States (see table 1), with old age dependency costs virtually sure to rise, Europeans are moving in opposite directions from our impluses. As noted, we have moved up the age of mandatory retirement to levels previously known only in Scandinavia, and we are now moving up the age of qualification for full social security benefits as well. Our shift toward a higher retirement age seems entirely logical, though its success cannot yet be assessed: In an aging society, more old people must work; in a society where work brings dignity, let us by all means enhance the worthiness of old age while reducing dependency costs; as the health of the young old has improved, it is only logical to reassess what everyone admits were historically and physiologically arbitrary measures of normal retirement ages.

But the Europeans differ, at least to date. Why? The argument that work alone brings worth is less popular in European than in this country. It is no accident that Europeans have raised vacation time in recent decades, in contrast to the much shorter annual periods available for most American workers. And while Juanita Kreps has plausibly argued that this greater European flexibility actually reduced pressure to retire[21] and it is true that in fact American retirement ages fell faster than European during the 1970's—Europe's value system makes it easier for their policymakers and old age advocates to think in terms of more retirement rather than less.

The key reasons for the European emphasis on earlier retirement, against current American logic, is that they think in terms of a larger welfare package which results in a different set of priorities. Their key welfare problem of the early 1980's has been, as ours might have been had we so defined it, rising unemployment (in fairness, unemployment that has remained somewhat higher than its American counterpart, though the difference, at roughly 2 percent, is not vast). Instead, American concern about unemployment has plummeted. Long willing to accept higher levels than Europeans, we have measurably, if implicitly, increased our tolerance: Unemployment figures that would have been politically disastrous two decades ago can now be heralded as welcome improvements. In this climate, even amid historically high unemployment figures, we are able to contemplate reducing unemployment benefits and attempting to cut retirement as well. Europeans, with higher unemployment see earlier retirement as a desirable countermeasure to what is their most severe social problem and, given a larger range of welfare benefits including high unemployment insurance, their leading welfare issue as well. Therefore, they resist any attempt to tamper with existing retirement levels save perhaps to increase them.

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[19] Clark, Robert, cited in Sheppard, Harold L., and Sara E. Rix. "The Graying of Working America." New York, the Free Press, 1977. table 5.

[20] "European Attitudes Toward Retirement." Social Security Bulletin, v. 43, June 1980. pp. 26-28; "How Many Votes in a French Dole Queue?" The Economist, v. 279, Apr. 4, 1981. In April 1983, the Commission of European Communities reported that over 4.5 million of the 12 million unemployed were youths 25 and younger. "Younger People and Employment." European Industrial Relations Review, June 1983. pp. 25-27.

[21] Kreps, Juanita. "Human Values, Economic Values and the Elderly," Van Tassel, David, ed. "Aging, Death and the Completion of Being." Philadelphia, American Philosophical Society. pp. 11-28.

Finally, in part because of their measurable differences in approaching issues of old age dependency, Europeans have handled general problems of welfare expenditure with less sense of crisis. They have also experienced less shock at sacred issues suddenly politicized than have Americans since the mid-1970's. This is admittedly a difficult point to measure. But with some exceptions for Britain under the Thatcher regime, Europeans have generated less sense of a need to reconsider basic premises in dealing with new social security problems than have a number of American commentators. There has been no equivalent, again outside of Britian, to the conservative critiques or even to liberal reevaluations such as that of Peter Peterson,[22] calling for means-tested benefit payments to replace the current, generalized benefit system. Most Europeans see their welfare problems as a function of the current economic recession, and they have some confidence that economic recovery will allow them to continue the welfare direction already established. In contrast, American analysis, rooted more firmly in demographic shifts and perhaps more deeply shocked that social security required new attention at all, often suggests a need for review even apart from current economic conditions. There is less sense in Europe of taxpayers nearing the breaking point, and this despite the fact Europeans have not relied on deficit financing as a solution to government funding problems.

Thus, social security issues in Europe on the whole look like issues, not crises. The deeper acceptance of the welfare state concept in Europe, even among most continental conservatives, and the broader range of programs which dilutes focus on issues of aging alone, add up to a different political climate. Europeans, confident that overall social security demands are not likely to increase greatly through the 1990's, feel they have some room to maneuver.

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[22] Peterson, Peter, "The Salvation of Social Security." The New York Review of Books, v. 29, Dec. 16, 1982, pp. 50-57.

## E. CRISIS: RHETORIC AND REALITY

Europeans have evinced concern about the changing climate for social security. A Common Market commission in 1982 reported in terms that would not be completely out of place in American debate:

> Social security costs are rising—as a result of inflation, high unemployment rates, aging population and program liberalizations—at the same time as economic growth in these [member] countries is declining; Cost control should be intensified in the areas of health care, benefit indexing, and program administration, while a reexamination of financing mechanisms is necessary to ensure a stable and equitable basis for funding social security in the future.[23]

Practical measures taken in response to current problems also resemble some of the actual adjustments adopted in the United States. Some new taxes have been levied. Britain in 1981 began to tax social security benefits directly. In France, an additional 1 percent income tax levy was adopted for 1983 and 1984 to cover anticipated social security deficits; there was also some benefit reduction and cuts in services, as in the removal of 25,000 hospital beds over a 5-year period. Selective benefit cuts have also been adopted in the Netherlands, West Germany, and Norway, and pension reductions have been discussed in Spain. A number of countries have changed benefit indexing. Belgium, for example, now offers fixed-amount increases rather than percentage changes in order to protect the poor. Indeed, action on benefits have been more dramatic thus far than in the United States, in part because the Europe political experience and agreement on fundamentals has allowed discussion to be more frank and practical.[24] Adjustments of this sort, which again do not reflect debates over basic ideologies, have preserved balanced budgets or even modest surpluses in social security accounts, as has been the case with the U.S. Social Security Administration.

The differentiation between Western European and the United States, then, lies principally in political atmosphere and rhetoric. It also involves some fascinating policy differences such as the contrasting approach to changes in retirement age. Only in Britian, under the 1984 impetus of Social Services Secretary Norman Fowler, has there been a disposition to reexamine basic features of the existing system, including a close look at pensions. Only in Britain, then, is there even a suggestion of the kind of response that the sense of social security crisis has generated among a number of groups in the United States or the kind of response which American assumptions about Europe's welfare burden would predict.

Underlying the difference in the terms of debate, including the perception of the severity of current and prospective problems, are differences both in policy and political culture. More Europeans than Americans judge that they have an active stake in the existing welfare system. They thus shy away from ideological alternatives to the system but are also more willing to consider modest readjustments due to changing circumstances. Ironically, social security's flagship role in the American system draws more attention to its problems, but also may focus more expectations, more sense of entitlement, than the pension features of Europe's more generalized welfare approach. Americans do in fact provide more generously for the elderly, relative to all welfare functions combined, than do Europeans. This is why the United States has been more vulnerable to demographic changes since the end of the baby boom, less able to think of dependency trade-offs between young and old, more inclined to shrillness about social security issues. It is also true that Europe's lesser reliance on the income taxes (including that portion of tax earmarked for social security), greater reliance on value-added taxation, and the overall balance between social security and private-plan pensions serve to further the difference in climate.

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[23] Commission of the European Community. "Social Security Problems: Points for Consideration." Brussels, European Economic Community, 1982.

[24] "A New Sense of Reality." The Economist, v. 294, Feb. 9, 1985. p. 15. Dilnot, A.W., J.A. Kay and C.N. Morris. "The Reform of Social Security." London, Claredon Press, 1984. "The Social Security Shambles." The Economist, v. 292, July 7, 1984. p. 54. "Britain's Welfare Future." The Economist, v. 294, Feb. 23, 1985. p. 50.

The result, again, is no small irony. The United States, benefiting from a more prosperous economy in the early 1980's and benefiting also from an unusually low if growing percentage of elderly in the population, has generated more anguished and confused debate over social security issues than has Western Europe. The United States, as a result, has contemplated and to a modest extent introduced more drastic changes in policy direction than have the Europeans, including the British. Whereas Europeans seek to build on postwar retirement trends in an effort to reduce unemployment and facilitate adjustment to the decline of the manufacturing sector, Americans seem vowed to buck these same trends, at the policy level if not necessarily at the level of actual behavior. The European impulse is shared by conservatives and socialists alike. Thus, while it was Mitterand in France who actually reduced the retirement age to unprecedented low levels, his 1981 conservative opponent, then President Giscard d'Estaing, had proposed much the same resource, arguing for an early retirement age of 58 and a normal age of 60 in the interest of freeing up, so he claimed, a million jobs for the young.

## F. CONCLUSION

How important are the differences in policy and political climate? To date, actual changes have been sufficiently modest on both sides of the Atlantic so that forecasting must be modest as well. It is clear that two quite distinctive approaches to social problems are becoming at least somewhat more distinctive, because of different definitions of and reactions to current problems. Possibly the divergence of the past decade will prove temporary. Europeans may wake up to an American-style sense of crisis (particularly possible in Britain); or Americans may, their economy recovered, calm down somewhat (as was in fact, prematurely predicted after the 1983 social security amendments). It is also true that Europe's greater unemployment problem, contrasted with the United States greater budget-balancing problem, and not growing differences in philosophy, underlie recent differentiation to an extent.

But if differentiation continues—and it has solid roots not only in current economic policy but also in past distinctions between the welfare approaches of Western Europe and the United States—it promises some fascinating issues for ongoing examination. Which approach best serves economic growth and development: Trying to encourage workers to retire early, at a growing public cost given the projected growth in the old age segment on both sides of the Atlantic or trying to persuade increasing numbers of over-65 workers to remain in the labor force? Which approach best serves social peace and equity: Europe's somewhat greater concern at present for the plight of younger workers, or the United States attention to old age policy problems? Which approach best serves the interests of older people themselves?

It is common, in invocations of the comparative approach in welfare studies, to use findings to berate American peculiarities, on the assumption that the European standard is more advanced and enlightened in this area. It is true that the United States has lagged in the welfare field by the criteria of most advanced industrial countries. It is true that its leading welfare program, social security, has recently been surrounded by more fundamental debate and uncertainty than its European counterparts. Europe's greater equanimity about current social security issues, particularly those involving the elderly, may reflect a more honest appraisal of the problem than some American debate has done. How much American concern has been generated not by the actual cost problems within the social security system, but by a larger agenda which includes a desire to free up more public revenues for military purposes? A European, accustomed to much lower military commitments, might well wonder. How much American debate has been provoked by continuing cultural ambivalence about the worth of the elderly in a society that has historically valued youth and work, but which paradoxically has created a welfare system from which the elderly have most to gain?

Comparison of recent debates and political climates raises some valid questions about current American trends and issues, and certainly clarifies actual, rather than hypothesized, European reactions. It cannot, however, guide policy directly. To the extent that they differ, it is not clear that the European approach to welfare is right or the American approach is wrong. Europeans may well find that they have erred in not more quickly examining some basic features of their welfare system, in the interest of freeing up more funds for economic development. They may find that their system unduly discourages initiative, though it did not do so during the 1950's and 1960's. They may also find, some 40 years hence, that lack of concentration on demographic trends created more agonizing political tensions in the long run than a willingness to face the same issues in advance would have done.

There are additional questions about the American approach as well, which the comparative context helps pinpoint. The disparity between a recurrent sense of social security crisis and the absence of sweeping policy change is striking. Again, Americans talk in this area more distinctively than they act, as compared to the Europeans. This reflects the deep roots of social security in American life. It reflects also the unusual power of the older voter in the United States—compared to more even political participation across generations in Europe. But the rhetoric-action disparity in the United

States has generated its own confusions and tensions, and this result might be reexamined before we crank up the rhetoric again in the future. The American commitment, however modest still, to encouraging greater labor force participation by older workers certainly deserves continued attention. It reflects a fascinating latter-day commitment to the work ethic, as well a desire to cut costs. But its impact on the elderly, long persuaded of the blessings of retirement, has yet to be seriously examined. Public policy may in this area be insufficient to change popular behavior (there are other examples of this disparity in American history, as in the area of birth control). How will we react if the elderly do not do more for their own support? Here the Europeans, who are building on actual retirement trends, may be on safer as well as more realistic ground; and they may also be in a better position to deal with a possible need to continue to adjust the size of the labor force to counter ongoing technological displacement.

The comparative approach raises more issues than it resolves, particularly when it reveals two kindred societies diverging on important issues rather than struggling to imitate each other. Current social security comparison invites continuing inquiry into the results of different policies—a clearly desirable approach in the present, somewhat experimental, climate for social security. The comparative approach does serve to remind us that the issues and alternatives defined by one nation are not always a function of objective reality. American policies toward social security continue to be shaped by larger assumptions about welfare, old age, and work. They are not, therefore, automatically flawed, but they must be seen and evaluated as products of one place and one time.

TABLE 1.—THE AGED POPULATION IN EUROPE

[Percentage of the population aged 65 and older, 1900–79]

| | 1900 | 1930 | 1950 | 1960 | 1970 | 1979 | Percent increase 1950–79 |
|---|---|---|---|---|---|---|---|
| Denmark | na | na | 9 | 11 | 12 | 14 | 56 |
| France | 8 | 9 | 11 | 12 | 13 | 14 | 27 |
| Germany (FR) | 5 | 6 | 9 | 11 | 13 | 15 | 67 |
| Sweden | 8 | 9 | 10 | 12 | 14 | 16 | 60 |
| United Kingdom | 5 | 7 | 11 | 12 | 13 | 14 | 27 |
| United States | 4 | 6 | 8 | 9 | 10 | 11 | 38 |

Source: 1900 and 1930 figures from Miegel, 1981. 1950–70 figures from International Labour Office, 1977. 1979 figures from Population Reference Bureau, 1981.